FINANCIAL TIMES

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Turkey: Ozal's model for future, Page 6

World news | Business summary

Reagan's plea on immunity rejected

The Senate Intelligence Committee has rejected President Reagan's request for limited immunity for Vice Admiral John Poindexter and Lt Colonel Oliver North, whose evidence is seen as the key to the Iran arms scandal.

The panel took no vote but reached a "general consensus" that immunity would be premature. The news followed a White House announcement that the President will enter hospital next month for urinary tract surgery. Arms discounts, Page 3

Ortega seeks pardon

President Daniel Ortega of Nicaragua will ask the National Assembly to pardon Eugene Hasenfus, the US citizen jailed last month for 30 years for gun-running, Information Minister Manuel Espinosa said. Earlier, President Ortega referred to another captured American, Sam Hall, as a terrorist. The divided Contras, Page 24.

Sweden frees Kurds

Four Kurds being questioned by police seeking the murderer of Swedish Prime Minister Olof Palme have been freed without charge. The continued questioning of a fifth Kurd was said to be unconnected with the Palme inquiry.

Athens strike battle

About 400 helmeted riot police armed with shields and batons broke through picket lines formed by striking Athens dustmen who were trying to stop troops from removing rubbish. Five strikers were injured in fighting.

Former minister clear

Former Inter-German Affairs Minister Egon Franke was acquitted of misappropriation over the disappearance of DM 3.56m ($2.78m) from a secret fund earmarked for buying the freedom of East bloc political prisoners.

Prisoners released

Right-wing Mozambican rebels released 57 foreigners taken prisoner during their protracted guerrilla war against Maputo's Marxist government.

Karachi toll rises

Ten more people died and another 50 were wounded as the death toll from unrelenting ethnic violence in Karachi rose to at least 170. Page 4

DeLorean acquitted

Former carmaker John DeLorean, 61, was found not guilty on all counts in Detroit in the US Government's fraud and racketeering case against him. "Praise God," he said as the verdict was read.

Chernobyl visitor

British Energy Secretary Peter Walker flew to the Ukraine for the first visit by a Western minister to the Chernobyl nuclear power station since the radiation disaster last April.

French anti-terror bill

The French Cabinet approved a bill to abolish juries in all terrorism trials. The first Action Directe murder hearing had to be postponed because jurors were threatened.

UK witness claim

Malcolm Turnbull, lawyer for former British counter-espionage agent Peter Wright claimed in the Supreme Court in Sydney that Britain's top civil servant, Sir Robert Armstrong, had been sent to Australia to lie for his government. Page 4

Peking Aids test

China plans to test for Aids all foreign students who have been in the country for more than a year and all new foreign students. "We cannot force them to take the tests but will persuade them" a Health Ministry spokesman said in Peking.

European steel prices accord near

LEADING European steel producers are close to agreement on a further attempt to increase steel prices, to come into effect in April, according to Mr Heinz Kriwet, chairman of Thyssen Stahl, Europe's largest privately-owned steel producer. Details, Page 24; results, Page 25

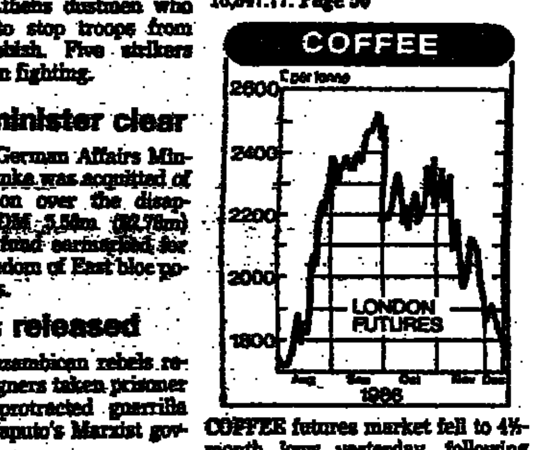
MR MICHEL Camdessus, governor of the bank of France, emerged yesterday by a narrow margin as the front runner to succeed Mr Jacques de Larosiere as the managing director of the International Monetary Fund (IMF) in an informal straw poll conducted among the fund's executive directors.

HILTON International hotel chain is to be bought for $975m by an unnamed major European company. The chain was put up for sale by Transworld, US food services and hotel group, when it chose recently to liquidate itself rather than be taken over by one of the country's most aggressive corporate raiders. Page 24

WALL STREET: The Dow Jones industrial average closed down 17.85 at 1,918.31. Page 50

LONDON: shares edged lower and the FT-SE 100 index eased 1.6 to 1,636.3 while the FT Ordinary index shed 3.5 to 1,276.1. Gilts firmed on foreign demand. Page 50

TOKYO: After a strong start, share prices turned down, dampened by growing investor concern over their high levels. The Nikkei market average ended 85.30 lower at 18,847.77. Page 50



COFFEE futures market fell to 4½-month lows yesterday, following last week's International Coffee Organisation meeting at which re-introduction of export quotas was kept off the agenda. The March position closed at £1,752.50 a tonne, down £35 on the day, the lowest level since August.

GOLD fell $2.00 to $392.00 on the London bullion market. It also fell in Zurich to $392.45 ($393.75). In New York the February Comex settlement was $395.30. Page 42

DOLLAR closed in New York at DM 2.0145; SFr 1.7075; FFr 6.5985; and Y163.57. It fell in London to DM 2.0180 (DM 2.0168); it also fell to FFr 6.60 (FFr6.61); to SFr 1.7010 (SFr 1.7050); and to Y163.60 (Y163.85). On Bank of England figures the dollar's index fell to 111.1 from 111.3. Page 43

STERLING closed in New York at $1.4305. It remained unchanged in London at $1.43. It fell in other markets to DM 2.8825 (DM 2.8875); to FFr 9.44 (FFr 9.4525); to SFr 2.4325 (SFr 2.4375); and to Y234.00 (Y234.25). The pound's exchange rate index fell 0.2 to 68.6. Page 43.

MATRA, French space and electronics group, is giving up control of its watchmaking activities to the Japanese watch-making giant, Seiko.

CARLO DE BENEDETTI'S Geneva-based investment company, Société Financiere de Geneve, said it agreed to pay $27m for a 10 per cent shareholding in Compagnie de Banque et d'Investissement, Swiss private bank active in portfolio management. Page 25

CONSOLIDATED Gold Fields has given the go-ahead for an A$87m (US$58m) project to extend the life of its 58-per-cent-controlled Mount Goldsworthy iron-ore joint venture with Broken Hill Proprietary.

Vietnam clears way for new leadership

BY STEVEN BUTLER IN BANGKOK

THREE of Vietnam's most senior leaders, responsible for taking the country through more than 50 years of Indo-Chinese wars and revolution, resigned yesterday. Their resignations, which come amid political and economic turmoil, appear to pave the way for a new generation of reformers to take the helm.

The resignations include Pham Van Dong, aged 80, premier for 30 years, a frail but popular folk hero who was always in the world spotlight during the war against the US and Le Duc Tho, 75, fourth in the hierarchy and one of the few senior statesmen in good health.

Le Duc gained worldwide prominence when he negotiated the Paris peace agreement with Dr Henry Kissinger leading to the US pullout from Vietnam and then refused to accept a share of the 1973 Nobel Peace Prize.

Truong Chinh, 79, Communist Party chief and President, a former hardline Marxist ideologue now widely regarded as a "pragmatist and reformer," also resigned.

The departure of the three, which may be followed by more resignations today, could clear the way for a new leadership of economic reformers and suggests that the old die-hards of Indo-China from the wars against the Japanese, French and the Americans have outlived their influence.

A new government is expected to be announced today at the final session of the sixth congress of the Vietnamese Communist Party, the first congress since 1982. The future policy direction will become clearer once the new leaders are named. Last night it was unclear whether those who have resigned will lose all official posts or will retain some influence through more junior positions.

The resignations come after months of intense internal debate over how to revitalise the Vietnamese economy, with ideological hardliners pitted against those who advocate the introduction of limited market mechanisms.

The call for reforms was echoed dramatically on Monday when Party Chairman Truong Chinh apologised to the Vietnamese people and said that the nation's top leadership was responsible for the unemployment, waste, chronic shortages and inflation that have worked together to make Vietnam among the world's poorest countries.

Truong Chinh has served as party chairman for just six months since the death of former chairman Le Duan in July. The three men who resigned, together with Le Duan, were close associates of Ho Chi Minh, the father of the Vietnamese revolution. The four provided 17 years of continuity in leadership after Ho Chi Minh's death in 1969.

The new party chairman is widely expected to be Nguyen Van Linh, a former party secretary of Ho Chi Minh City (formerly Saigon) who experimented with economic reforms there. Vice-Premier Vo Chi Cong and General Nguyen Giap, the military strategist, have each been mentioned as possible successors to the Prime Minister.

Although economic reform has been intensively discussed at the congress, little concrete has emerged. The moves toward economic reform and the changes in leadership appear to have the full backing of the Soviet Union, which

Pham Van Dong

is believed to provide about US$3m daily in aid. Moscow's delegate to the congress, Mr Yegor Legachov,

Continued on Page 24

Murdoch triggers full bid for Asian newspaper

By David Dodwell in Hong Kong and Gordon Cramb in London

MR RUPERT Murdoch, the Australian-born media magnate, yesterday triggered a full bid for the South China Morning Post, the Hong Kong newspaper group reputed to be among the world's most profitable publishing enterprises. The deal is expected to value the group at more than HK$2.35bn (US$301.3m).

Mr Murdoch has agreed to acquire an 18.9 per cent holding in the group from Dow Jones of the US, publisher of the Wall Street Journal, which will receive HK$445m. With a 34.9 per cent stake purchased a month ago, this takes him to majority control of the Post and requires a public offer for the remainder.

The move follows Mr Murdoch's bid earlier this month for Herald and Weekly Times, Australia's largest domestic media group. The two initiatives indicate not only a return by Mr Murdoch to the Asia-Pacific region after a decade of expansion in Britain and the US, but also highlight his continuing willingness to invest in newspapers at a time when he has been establishing a reputation as a pioneer of satellite television.

Australian analysts last night linked the developments by pointing to the prime position enjoyed in their respective markets both by the Post, Hong Kong's foremost English language newspaper, and the Herald group, which publishes Melbourne's only afternoon newspaper and has widespread television and magazine interests.

In each case, moreover, asset disposals should partially offset the cost of the takeover. The A$1.8bn (US$1.19bn) Herald offer is likely to be subject to Australian regulatory constraints which would bring the sell-off of as much as A$600m worth of its businesses.

In Hong Kong yesterday it was established that key stakes in two other publications were set to change hands as a result of Mr Murdoch's deal with Dow Jones.

The US group has offered to pay HK$195.8m for the 51 per cent stake in the Far Eastern Economic Review which it does not already own. Dow Jones was given the option to acquire full control of the weekly magazine as part of the original deal in which it acquired its minority holding in the Post.

In addition, Dow Jones has made an offer for the Post's 12.7 per cent stake in the Asian Wall Street Journal, which is published in Hong Kong and Singapore. The US$2.1m price on the deal values the newspaper at $16.5m.

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Nigeria and Paris Club agree partial debt rescheduling

BY MICHAEL HOLMAN IN LONDON

NIGERIA yesterday reached agreement with the Paris Club of Western creditor governments on the rescheduling of a substantial portion of its estimated $22bn external debt.

The agreement which follows two days of talks in Paris is the latest in a series of moves designed to resolve the country's economic crisis, stemming in part from the sharp decline in earnings from oil, which accounts for around 90 per cent of export earnings. Receipts have fallen from a peak of $25bn in 1980 to a forecast $6.5bn this year.

Wide-ranging domestic economic reforms, including an effective devaluation of the Naira, won the approval in principle last September from the International Monetary Fund (IMF) for the Government's recovery programme. This in turn opened the way to the rescheduling of Nigeria's estimated $22bn total external debt, beginning with an agreement last November for the rescheduling of $3.5bn due to commercial banks, accompanied by a new $320m loan.

The package has not yet received the 90 per cent level of support from participating banks required before it becomes effective, but most bankers involved believe it will be forthcoming.

Further backing for Nigeria's reform programme, one of the most radical in black Africa, has come from the World Bank, which recently released the first tranche of a $450m trade policy loan, in addition to a $4.3bn project loan to be disbursed over three years.

Under the Paris Club agreement, announced last night in a statement from the French Finance Ministry, the country's medium and long-term debts accumulated before the end of 1983 have been rescheduled over 10 years, including a five year grace period.

Short-term debts accumulated before the end of 1983 are being consolidated over eight years, including a three year grace period, while those accumulated since the end of 1983 have been consolidated over four years, including a one year grace period.

In its statement last night, the French Finance Ministry did not disclose the amount of debt affected by the rescheduling. However, earlier this year Dr Chu Okongwu, the Nigerian Finance Minister, who led his country's delegation to the Paris Club this week, said that export credit agencies would be asked for a rescheduling of principal and interest on medium and long-term loans falling due, or in arrears, over the next four years, which amounted to $4.5bn.

Nigeria would also request, he said, a deferred payment schedule for insured trade arrears, and back interest due on such arrears, amounting to $2.1bn.

The Nigerian Government has also said that it expects export credit agencies to re-establish cover for the country (suspended in 1984 because of mounting arrears in trade payments) should the Paris Club agree to rescheduling, and also to increase their exposure to Nigeria.

Yesterday's Paris Club rescheduling means that the complex economic recovery programme drawn up by the Government, in close consultation with the IMF and the World Bank, is now almost in place. One important area of concern remains.

Exporters to Nigeria who are not covered by export credit guarantee facilities have submitted claims worth some $9bn, dating back to the early 1980s, when the country's falling oil revenues led to a build-up in arrears in payments for trade.

The Nigerian Government agreed to issue promissory notes to cover the debt, but disputed the level of claims. So far notes worth only $1.5bn have been issued.

Last October the Government announced that it would be unable to meet the terms of the notes. It told holders that it could not make the first repayment of the principal, due in 14 equal instalments, and is now seeking to renegotiate the period over which the principal will be paid.

EEC cash crisis 'far worse than figures show'

BY QUENTIN PEEL IN BRUSSELS

THE CASH crisis of the EEC is far worse than appears in any official budget figures, with a financing gap between revenues and spending needs now more than Ecu 20bn ($20.6bn), according to the latest annual report of the European Court of Auditors.

The outstanding liabilities at the end of 1985, which amount to more than half the Community's Ecu 36bn annual budget, are partly a result of unfinanced spending commitments over several years, totalling Ecu 11.8bn, and partly the need to write off the value of much of the surplus EEC food stocks, estimated at Ecu 5.65bn on stocks with a book value of Ecu 11bn.

They also include a whole variety of hidden liabilities and obligations not entered into the consolidated annual balance sheet, for which the European Commission is accused of not giving "a true and fair view of the Community's actual financial situation."

The Luxembourg-based Court of Auditors, which presented its report to the European Parliament and the Council of Ministers this week, has the job of investigating the legality, regularity and sound financial management of spending in the EEC, the European Coal and Steel Community, and Euratom, the atomic energy community.

Its latest calculations, which err on the side of conservatism at least in so far as the food stocks are concerned, underline the accumulated financial crisis which the 12 EEC member states will have to deal with next year. The figures are also already 12 months out of date.

The Court also calls into question the regularity of a variety of different payments in the Community budget, including the failure to credit repayments, lack of budgetary authorisation for specific items and overpayment in some areas.

It says that while the bulk of spending on the Common Agricultural Policy was almost totally used, other areas actually got far less than intended: only 58.5 per cent of the allocation was spent by the end of the year on fisheries, and only 76 per cent on development co-operation.

The Court also challenges several member states – notably Italy, Luxembourg, France and West Germany – with refusing to open their books to see if they had properly collected and paid over their value added tax contributions to the EEC budget.

On food stocks, the Court calculates the total book value at the end of 1985 at Ecu 11bn – a 26 per cent increase over 1984. Cereals in public stores were said to be worth Ecu 3.82bn, butter Ecu 3.42bn, and beef Ecu 2.27bn.

However, the annual storage costs of the stocks amounted to Ecu 1.35bn, and the potential disposal costs, largely depreciation, Ecu 5.65bn. The report says the budget "provides for only a small part of the known loss of value of intervention stocks, thereby postponing the greater part of the loss to the budgets of later years" – exactly the

Continued on Page 24

SAS awards $1.4bn airliner contract to McDonnell Douglas

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

SAS, the Scandinavian Airlines System, yesterday placed an order for 12 McDonnell Douglas MD11 long-range jet airliners in a deal worth at least $1.4bn, the biggest single investment ever made by SAS in new aircraft.

The order marks another success for McDonnell Douglas this month. It follows the $1bn contract placed by British Caledonian Airways for nine MD11 aircraft in early December and the $500m order for five aircraft from Mitsui, the Japanese trading company.

British Caledonian became the launch customer for the new aircraft, which is still on the drawing board.

McDonnell Douglas, which has said it wants launch orders for 20 aircraft, is expected to commit the MD11 to full-scale development and production by the end of the year.

The SAS order is a blow for the European Airbus Industrie consortium's rival four-engined A-340 long-range airliner project, and is expected to spark a new battle among the three leading aero-engine manufacturers, Pratt and Whitney, General Electric and Rolls-Royce for the valuable engine orders.

SAS said yesterday that it had not yet selected an engine.

The airline said that the 12 three-engined MD11 aircraft would successively replace its present intercontinental fleet of 9 DC-10s.

The first aircraft will be delivered in March 1991 and deliveries will be spaced over the four years 1991-94.

McDonnell Douglas will deliver the aircraft in two versions, one for 224 passengers and a large volume of cargo for the non-stop flight from Copenhagen to Rio de Janeiro, and a standard version for 260 passengers.

Mr Jan Carlzon, SAS chief executive, said the MD11 fitted SAS's strategy for having smaller aircraft that can offer more departures with as many direct connections as possible.

SAS is continuing negotiations with McDonnell Douglas for options on further MD11s.

The orders are part of SAS's ambitious fleet replacement programme, which could eventually cost more than $3bn.

During the early 1990s it must renew the bigger part of its European fleet of DC-9s and it is currently co-operating with Boeing on the development of the US aerospace group's planned propfan aircraft, the Boeing 77.

SAS is planning to increase its number of non-stop intercontinental flights from the Scandinavian capitals of Copenhagen, Stockholm and Oslo, and to add new destinations.

It currently has long-haul flights to New York, Los Angeles, Seattle and Chicago in the US, as well as Rio de Janeiro, Bangkok/Singapore and Tokyo.

It is negotiating a new route to Peking with the Chinese authorities, and is also seeking to reopen a service to the African continent, having been forced to withdraw its earlier service to Johannesburg.

Attention turns to Alitalia contract, Page 6

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Chemicals industry faces key questions after Rhine spillage

A SWISS warehouse fire last month and the massive pollution of the river Rhine which ensued has created a climate for major change in Europe's chemical industry, Reuter reports from Zurich.

But, although the governments, political parties and companies involved are looking hard at the role of the industry and its effect on the environment, many businessmen and politicians doubt if the debate will provoke any fundamental policy shifts once the companies and regulatory agencies have re-examined and strengthened safety precautions.

The fire in November at the warehouse owned by the Sandoz company at Schweizerhalle, near Basel, caused up to 30 tonnes of toxic chemicals to flow into Europe's most important commercial waterway, decimating fish and plant life and endangering livestock on its banks.

But the blaze proved only the first in a series of accidents on the 1,300km river which stirred public concern and focused attention on the chemical industry as a whole.

Environment ministers from the Rhine nations and other European Community states are due to meet on Friday in Rotterdam at the mouth of the Rhine for a second time to work out better co-operation to prevent a repetition of the disaster and decide who should foot the bill for damage already caused.

President Alphons Egli of Switzerland who will represent Switzerland in his role as Interior Minister, said the Rhine pollution had raised fundamental questions about the future of the chemical industry in Europe, just as the Chernobyl nuclear reactor catastrophe last April brought calls for an end to the use of atomic energy for generating electicity.

Mr Max Kaufmann of Sandoz's corporate strategy department said: "It is not as if in the night of Schweizerhalle we woke up and started to think. This is part of a continuing process."

But he, like officials of other companies, said the accident had accelerated their efforts on safety and set in motion a review of what products were being produced and where.

Governments have also been galvanised into studying whether to forbid production of certain dangerous substances and to monitor more carefully the ones still permitted.

The chemical industry employs some 2.1m people with an annual wage bill of $40bn. And its products, in addition to poisons and plastics, include fertilisers increasing food production and pharmaceuticals contributing to world health.

Big as they are, the three Basle giants – Sandoz, Ciba-Geigy and Hoffmann-La Roche – are dwarfed by BASF, Hoechst and Bayer further down the Rhine in West Germany, which rank among the top four chemical producers in the world. And almost all European states have substantial domestic chemical plants.

Sandoz, which suffered the worst publicity, has perhaps been working the hardest on its safety review in the aftermath of the Rhine pollution.

It narrowly escaped having large stocks of the deadly gas phosgene emitted during the fire and has decided to stop using it in production of paints at Schweizerhalle, where it had been consuming up to 200 tonnes of the substance annually.

It still needs about five to 10 tonnes for pharmaceutical production in Basle, but the company said stocks would be kept at a minimum and stored under the strictest security.

Sandoz also reduced output of phosphoric acid by 60 per cent to cut down on the amount standing in warehouses waiting to be used and presenting a major safety problem.

At Ciba-Geigy, a spill of the weed-killer atrazine into the Rhine at Basle hours before the Sandoz fire led the company to speed up plans to discontinue production of the chemical in heavily populated central Europe, moving it to a more secure location in North America.

In West Germany, where a series of accidents followed in the wake of the Sandoz fire, the companies involved all reviewed their safety measures.

Commission studies how to help merchant shipping

BY WILLIAM DAWKINS IN BRUSSELS

WILL DAWKINS IN BRUSSels
THE EUROPEAN Commission yesterday launched an "urgent study" into further proposals to ease the plight of the EEC's dwindling merchant shipping fleet.

Officials say the investigation is likely to cover possible measures to iron out disparities in operating conditions between EEC ports, rules on state aid to prevent ports outbidding each other for traffic unfairly, and the feasibility of joint EEC accords with non-Community shipping authorities.

The study has been made possible by the agreement a day earlier between the Community's 12 transport ministers on the basics of a maritime policy, thereby adding the missing third element to attempts to agree policies for air and road transport.

The four-point package will liberalise shipping services within the Community (though not, crucially, along individual member states' coastlines), allow EEC shippers formal redress against unfair pricing and lay down a code for joint action against non-member states' restrictions on access to ocean cargoes.

Mr Dominic Peugniez, secretary general of CAACE, the European shipowners' association, yesterday greeted the agreement as "a very significant step forward that will benefit all our members."

Until now, member states have regulated their own shipping industries independently. The fact that they managed to agree on such wide-ranging measures only two years after their proposal by the Commission is a mark of a growing powerlessness to defend their own positions against the dramatic decline in European shipping.

According to trade figures, the EEC's share of the world merchant fleet has slipped from just under a third in 1970 to 21.5 per cent last year, while the combined share of Comecon and developing countries has grown over the same period from 14.3 per cent to 28 per cent.

The Soviet Union, East Germany, Poland and Taiwan have been particularly active since the turn of the decade in undercutting their EEC competitors on freight rates. The recent package will allow Community shippers to apply for the imposition of anti-dumping measures where they feel they are being wrongly underpriced.

If shippers also suspect they are being unfairly elbowed out of ocean cargo business by third countries, they can also apply for co-ordinated action, which would begin with diplomatic measures followed up by the imposition on the offending foreign lines of special permits, quotas, or punitive duties.

In this respect, the package does have one unfortunate weakness. Ministers were unable to agree on Commission proposals to abolish the right, known as cabotage, for member states to restrict to national carriers cargoes carried between ports along their own coastlines. "If we don't get an agreement on internal cabotage, it is going to be very difficult to get agreements with third countries," pointed out one Commission official.

This proposal, which is supported by the UK—where no cabotage rights exist—but opposed by southern member states, which have taken the brunt of the shipping recession, has now been handed back to national officials to seek a way to bring the two sides together.

The agreement, however, is more radical when it comes to external shipping arrangements between EEC partners. It will allow EEC vessels to offer services between two other member states as from December 31 1989, allow the same freedom between EEC ports and third countries after December 31 1991 — and in a gesture to shippers outside Europe, will permit non EEC vessels to offer services between Community ports and third countries after January 1 1993.

This will mean, for instance, that a Greek ship will be permitted to ferry a cargo from Athens to Brindisi, reload and proceed to Marseilles. Formerly, it would have been forced to return home empty. Equally, it will be allowed to proceed from France to a non-Community port with a new cargo.

While all this amounts to an important liberalisation of an otherwise restrictive industry, nobody is predicting that the agreement will be a quick panacea. Says one EEC official: "We should at worst be able to hold the situation and at best make significant improvements."

WORLD MERCHANT FLEET
Percentage share

	EEC	Open registry countries	Comecon	Others
1970	32.3	19.0	6.1	8.2
1975	30.7	25.8	5.5	9.2
1980	29.4	26.5	5.8	14.9
1985	21.5	28.1	6.4	21.6

Source: Eurostat

Eureka projects worth £525m approved by European ministers

BY SARA WEBB IN STOCKHOLM

ARTIFICIAL TOMATO seeds, "smart" windows, advanced chips and more secure information systems are a few of the new projects formally given the seal of approval at the Eureka ministerial conference here yesterday.

Altogether, 37 new projects worth Ecu 730m (£525m) were announced yesterday as part of the bid to encourage industrial co-operation between Western European countries in the research and development field in the face of Japanese and US competition.

Thomson, the nationalised French defence and electronics group, and SGS, the Italian semiconductor manufacturer, have the lion's share of the new projects with their plan to develop a new generation four-megabit Eprom chip.

The Eprom (Erasable programmable read-only memory) chip project will cost Ecu 400m over the next five years. The companies hope to reduce the time taken to introduce four-megabit and 16-metbit chips on to the market and aim to capture 20 per cent of the world market by 1995.

Eureka, which was launched in July 1985, has so far approved 109 projects worth an estimated Ecu 3.5bn in total. Another 44 projects are in the pipeline.

Mr Thage Peterson, the Swedish Industry Minister who has held the chair for the fourth Eureka ministerial conference over the past six months, said "the results from Eureka have been excellent to date. The build-up phase is now behind us."

However, he said that ministers had recognised the need to increase efforts to do away with obstacles to trade between the 19 participating countries and to increase contact with European trade.

Information technology projects have dominated the Eureka aproved list "Projects at all levels of high technology have been approved, but there has been an uneven distribution," said Mr Peterson. However, he added that small-and medium-sized enterprises are now playing a more significant role in Eureka.

Recent doubts cast on whether Eureka projects could eventually have military applications were not dispelled when Mr Ingvar Carlsson, the Swedish Prime Minister, pointed out that even an efficient truck could be used for military purposes.

Spain now takes over the chair from Sweden for the next nine months.

Mr Carlsson told a news conference after opening the talks that Europe had considerable research resources but failed to combine them intelligently.

"This is what Eureka is all about. If we don't do this, we will be totally dependent on the US and Japan," he said.

He told ministers that Eureka was making healthy progress, but was entering a stage where its existence would be put to the test.

Mediator sought in AFP dispute

By George Graham in Paris

FRENCH GOVERNMENT officials are seeking a compromise to end the week-old strike at Agence France Presse, the national news agency.

The appointment of a mediator is being sought in an effort to bring the striking employees back to work, but senior journalists yesterday stepped up their pressure for the resignation of AFP's chief executive, Mr Henri Pigeat, whose plan for restructuring the agency sparked the strike.

An extraordinary meeting of the agency's board is due to take place today.

One possible candidate as mediator or as a replacement for Mr Pigeat, Mr Claude Imbert, editorial director of the weekly news magazine Le Point, said yesterday that he wanted nothing to do with AFP. Officials said the most likely mediator was Mr Jean Marin, who headed the agency from 1954 to 1975.

The Government has not yet released the FFr 60m (£6.3m) needed to allow AFP to balance its books for 1986. Without these funds, the threat hanging over the agency is that an official receiver might have to be appointed.

Mr Pigeat's restructuring plan involves the loss of around 300 jobs out of a total of 2,000, including some 150 journalists, and aims at returning to break-even point by 1989.

It involves the transfer of several of AFP's foreign language services away from Paris, including the relocation of the German desk in Bonn, the Middle Eastern desk

Mr Raymond Levy (left) shakes hands with his successor as managing director of Cockerhill-Sambre, Mr Philipe Delaunois. Mr Levy's appointment as head of the Renault motor group was confirmed yesterday by the French Government and he is expected to take over this week.

Spanish students press for education changes

BY DAVID WHITE IN MADRID

TENS of thousands of Spanish high school and technical college students, taking up the rhythm of the recent student protest movement in France, demonstrated in Madrid and in other towns across Spain yesterday to press demands for easier and cheaper access to universities.

In most Spanish provinces, a majority of secondary schools were brought to a halt by the student strike movement, which has built up over the past few weeks.

The protests were backed by Spain's two main trade union organisations, the Co munist-led Workers' Commissions and the Socialist UGT, as well as by parties to the left of the Socialist Government and some teachers.

The school students want the Government to scrap selection procedures for university entrance, to lower fees, and to maintain September examinations for those who fail in the summer. The Government has said it never intended to do away with the second-chance examinations but insists that universities do not have enough space to accommodate all who complete their secondary education.

Cuts voted in Swiss bank taxes

BY WILLIAM DULLFORCE IN GENEVA

THE LOWER chamber of the Swiss parliament yesterday ordered the Federal Council (government) to meet the Swiss banks' demands for relief from stamp duty and other charges on their trading in shares, bonds and other financial instruments. It felt action was needed to preserve the competitiveness of Switzerland as a financial centre.

Mr Otto Stich, Financial Minister, had argued that until compensating sources of revenue could be found, the council could not offer more than the relatively minor cuts in taxes on some money and gold transactions announced in September.

Stamp duty is expected to contribute some SFr 2bn (£820m) or close to 10 per cent of total revenues this year.

The Swiss bankers have dismissed suggestions that their earnings be taxed more heavily to compensate the Treasury. They argue that the increase in business likely to arise from cuts in stamp duty will in itself generate greater taxable income.

In practice the Federal Council can be expected to come to terms with the banks on a step-by-step reduction in the charges which the bankers claim are forcing Switzerland to lose business to foreign centres, in particular to London but also to Frankfurt and Amsterdam.

One of the most controversial charges is the 0.3 per cent duty levied on foreign-to-foreign securities business done through Swiss intermediaries, which provides the Treasury with about SFr 1bn a year.

In the motion passed yesterday the lower chamber proposed that this charge be reduced by at least half. This would encourage institutional investors to make greater use of Swiss banking services.

The chamber also pointed to cuts in charges that could open the way for a proper Swiss money market and to a revival of Eurobond business in Switzerland.

Kohl stills left-wing protests

BY DAVID MARSH IN WOLFSBURG

MR HELMUT KOHL, the West German Chancellor, at an election rally in the car workers' town of Wolfsburg yesterday, told barracking young left-wingers that they had nothing to lose but their pensions.

Mr Kohl, comfortably ahead in the opinion polls leading up to the general election on January 25 served up a mega-decibel feast of homely homilies which sent most of the attendant youthful protesters slinking discontentedly out of the hall well before his address was over.

He chose Wolfsburg, home of Volkswagen and only a few miles from the East German border, to deliver a speech on Tuesday in which he came out firmly on the side of optimism, Americans, mothers, children, the German army, scientific research and monetary stability.

He spoke out against Angst, the policies of the opposition Social Democratic Party (SPD) based on "class war, jealousy and hate" and, of course, against that arch-German enemy, insecure pensions.

Underlining that West Germany was the only major country which had to lengthen conscription periods because of the falling birthrate, Mr Kohl said the financing of future pensionse would be "one of the most important" tasks after the election.

Young people had to listen. Their future pensions, because of the inverse age pyramid, were not paid for, Mr Kohl said.

As if this were not already enough of a knock-out, Mr Kohl took the gloves off in earnest and followed it up by calling on more young people to start their own businesses.

The group of noisy youths in the back of the hall—said by Mr Kohl's aides to be members of extreme left groupings which regularly follow the Chancellor and enliven his meetings—had already been warned.

At the beginning of his speech, Mr Kohl called on the audience—mainly middle aged and elderly supporters of his Christian Democratic Union (CDU) party—to disregard the heckling from "pubertal trouble-makers" and underlined that the battery of powerful loudspeakers was on his side.

So it was to be. The technology of broadcasting Mr Kohl's big, imperturbable tones at catcall-drowning levels across the hal proved powerful enough to eclipse as well his supporters' angry cries of "Schweinerei" directed at the protesters.

The address was similar to the other 60 campaign speeches Mr Kohl will have made by January 25. But the closeness of the Iron Curtain, lent weight to his remarks refusing "Soviet hegemony" and calling (at some undetermined time) for an end to the division of the German nation.

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EUROPEAN NEWS

Poles face period of high inflation

By Christopher Bobinski in Warsaw

POLAND'S ANNUAL inflation rate seems set to pass the 20 per cent mark in the next few years as the government braces itself to impose a period of austerity aimed at balancing supply and demand throughout the economy.

This is the message to emerge from a two-day Communist Party central committee meeting devoted to economic reform as the Government faces an intractable $34bn foreign debt and a population impatient for better living standards.

Mr Zbigniew Szalajda, the Deputy Premier responsible for industry, told the meeting which ended yesterday that the Government was in favour of significant price rises towards the end of next year and a reduction of subsidies to achieve a fall in the inflation rate to 5 per cent by 1990.

He made no secret of the fact, however, that the Government saw this policy as "economically logical" but risky. It could lead to a "temporary worsening of the mood in the country," he said.

He admitted that there were deep disagreements on the economy within the establishment, ranging from how much to spend on developing coal and energy output to how fast to go in eliminating subsidies and putting up prices.

The Government led by Mr Zbigniew Messner, the Prime Minister, has come in for serious criticism from reformers, including party officials, for failing to stick to the decentralising reform policies first introduced in 1981.

However, this criticism was muted in the keynote speech by Mr Marian Wozniak, the party secretary responsible for the economy. He reiterated the official commitment to reform policies which, he said, had won the approval of the International Monetary Fund and the World Bank.

Mr Wozniak underlined the need to restructure the economy to give companies financial independence, and to permit bankruptcies, while allowing income differentials to grow. But he was cautious about reorganising the central Government, which is seen as a serious barrier to change.

Andrew Fisher and David Marsh report on efforts to counter a money supply overshoot

Bundesbank likely to opt for safety first

WEST GERMANY's closely watched money supply has overshot its target range by a high margin this year, but the Bundesbank is not expected to make any dramatic changes in the level it fixes for 1987 at its meeting today.

It is, though, likely to spend a lot more time in the next few months worrying whether the methods it uses to achieve its objective for the central bank money stock run the risk of upsetting both currency markets and the placid pace of the German economic upswing.

The target range has been missed this year for the first time since 1978. The overshoot is also the first since Mr Karl Otto Poehl became president of the Bundesbank. Since inflation has stayed out of sight and even retreated slightly, however, the veering off target has led to more shrugging of shoulders than furrowing of brows or sleepless nights.

This year's target range was 3.5 to 5.5 per cent. But the money stock has actually grown by nearly 8 per cent over the past 12 months. So if the Bundesbank sets a more or less unchanged level for 1987, this will imply a sharp deceleration in flows of liquidity into the economy.

The dilemma faced by West Germany's central bank is that if credit policy is tightened sharply to lower the pace of money stock growth, the domestic economic recovery will be threatened. The Bonn Government has already downgraded its expectations for next year's growth to around 2.5 per cent from the previous 3 per cent.

Any firming of D-mark interest rates also risks upsetting the precarious stability of foreign exchange markets. French protests in the past few weeks that higher Frankfurt money market rates have added to the problems of the franc within the European Monetary System have been a foretaste of tension.

"It all points to the need for the Bundesbank to give room for manoeuvre," said Mr Giles Keating, an economist with Credit Suisse First Boston, the Swiss-US investment bank. "On the one hand, there is the desire to counteract renewed inflationary pressures, especially on the labour cost side. On the other, it does not want to see the exchange rate fall too far out of line."

With the dollar hovering at around DM 2, the Bundesbank is fairly content that an acceptable equilibrium has been reached between the US Administration's desire for more competitive exports while not too severely damaging West German exports.

"I would be surprised if the Bundesbank was prepared to accept a dollar-D-mark rate much below DM 1.90," added Mr Keating. "At around DM 1.80, it would get very concerned about the competitiveness of the manufacturing sector." In his view a 1987 target level of 4.5 to 6.5 per cent would be appropriate for the money stock.

Such a range would also incorporate about 0.5 per cent to allow for the slower rate at which money moves around the economy. With inflation out of the way, though expected to resurface a little next year, and investment yields low, people have been more inclined to hold onto their cash.

The central bank money stock, comprising cash and easily withdrawable bank deposits, serves as the basic indicator of liquidity in the economy. In the face of strong US demands for lower West German interest rates as a stimulant to the economy, policy-makers in Frankfurt and Bonn have pointed to the strong money supply expansion as their contribution to world growth.

The Americans have not been totally convinced, but the pressure has abated recently. Much now depends on what happens after the West German general elections on January 25. A D-mark revaluation within the EMS is a widely tipped possibility and a tighter credit policy would add to upwards pressure on the D-mark, further hurting West German exporters.

There has certainly been no shortage of advice as to what the Bundesbank should do, with the broad consensus favouring a same-again policy. Alternatively, it could try to claw back the extra money stock growth of this year by fixing a low target (maybe a 1 per cent to 3 per cent range), or abandon the annual figure in favour of a long-run level of about 4.5 per cent.

Neither of the last two choices seems likely. Even so, some experts feel the Bundesbank could have a go at reining back some of the excess. Mr *Ulrich Ramm, senior economist* with Commerzbank, argued: "I think the Bundesbank will try to catch part of the 1986 expansion by possibly setting a lower corridor level." His bet is 3 per cent to 5 per cent, though his colleagues tend towards a repeat of the 3.5 per cent to 5.5 per cent range.

The money stock target is decided on the basis of assumptions on production growth and price rises. The 1986 range was set with 2.5 per cent real output growth and 2 per cent higher prices and costs in mind.

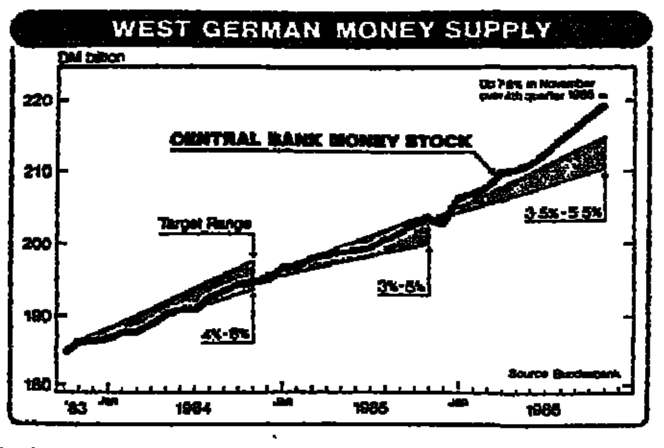
Because of the lower dollar and the drop in oil prices, inflation receded and then disappeared. But a slight inflation of up to 2 per cent is seen likely for 1987. The Bundesbank is under pressure at home *not to do* anything that could lift prices further in such an acutely inflation-conscious country.

It has explained this year's overshoot by referring to the massive current account surplus and investors' desire to keep the D-Mark holdings liquid.

In past years, the Bundesbank has not always been sure just how the money stock stayed in the target range. Luck has played a part. Whatever it announces at today's Press conference on the new range, it is likely to face criticism, noted Mr Hans Apel, the former Social Democrat Finance Minister.

"If it adopts a tighter monetary stance, interest rates will rise. If it does not, it could be held responsible by monetarists for any modest upsurge in inflation." Certainly, Mr Apel felt the Bundesbank should not damage the economy through an over-tight target. All will be revealed early this afternoon, with the Bundesbank likely to opt for a safety first policy of maximum price stability.

WEST GERMAN MONEY SUPPLY



Outspoken Poehl looks to the next eight years

BY DAVID MARSH IN BONN

The Bundesbank's decision on its money stock goal will be taken at a time when the Bonn Government is starting to think about who will be in charge of the central bank from the end of next year onwards.

The eight-year term of Mr Karl Otto Poehl, president of the Bundesbank since the beginning of 1980, comes up for renewal in 12 months. But the basic decision on whether he will stay or be replaced will be taken in the months following the January 25 general election.

At the moment, the chances of Mr Poehl remaining into the 1990s appear to be high. A senior government official comments: "I cannot prophesy political shifts. But if a decision had to be taken today, Poehl would stay on."

The central bank president's position is complicated by his links with the Opposition Social Democratic Party. He served in the Finance Ministry under the SPD between 1972 and 1977 and was the right hand man of Mr Helmut Schmidt for a long period before the latter became Chancellor in 1974.

But his ties with the SPD have become progressively strained. The party believes the tight monetary policies followed by the Bundesbank under Mr Poehl at the beginning of the 1980s were being partly responsible for the downfall in 1982 of Mr Schmidt's coalition government.

Mr Schmidt's resentment still rankles. At a private gathering of senior figures from West German industry and finance in Heidelberg a few weeks ago, the former Chancellor sent a ripple through the audience by delivering stinging criticism of the central bank.

At the same time, Mr Poehl has developed a good working relationship with Mr Gerhard Stoltenberg, the Christian Democrat Finance Minister. The two get on better than Mr Poehl did with Mr Hans Matthoefer, the long-running previous SPD incumbent of the post.

Bonn officials go out of their way to praise Mr Poehl's co-operation with the conservative administration. "He is neutral and thoughtful, but not afraid to speak his mind," says one official.

Some SPD politicians believe that Mr Johann-Wilhelm Gaddum, previously head of the Rhineland Palatinate state central bank and a political ally of Chancellor Helmut Kohl, who has just joined the Bundesbank's directorate, might be earmarked as a possible successor for Mr Poehl.

In fact, that seems unlikely. Mr Poehl himself is thought to have initiated the move as part of a general bid to reinforce the directorate. Mr Gaddum will take over formally next year as the director responsible for banking supervisory questions and personnel affairs.

One Bundesbank official says there are "no alternatives" to Mr Poehl. Another insider remarks with irony that under an SPD government, Mr Poehl would probably be replaced at the end of next year. "But since the present government will still be in power, his chances of staying on are good."

Italian companies aim to create the 'intelligent home'

BY JOHN WYLES IN ROME

ITALY'S attempt to create the technology advanced "intelligent home" within its generally antiquarian housing stock was officially launched by eight companies yesterday.

Deemed by its authors to be an Italian move from "imitation" to "innovation," the initiative is a response to the European Commission's attempt to stimulate research and development in information technologies through its Esprit programme.

In phase two of Esprit, which is due to get under way next year, the Commission has identified "home systems" as one area of pre-competitive research which needs a special effort if European companies are not to be left behind by US and Japanese competiton. It is also intended to produce common European standards for new applications of technologies so as to avoid damaging competiton.

The "Italian home systems interest group" announced yesterday is the first response from within a member state to the Commission's efforts. The group's basic function is to co-ordinate individual corporate research to ensure exchanges of information on parallel or complementary projects.

By itself, the group cannot qualify for EEC money to help research. The Italian companies will have to form alliances with one or more companies from other Community countries to qualify for financial aid.

Formation of the group is a reflection of Italy's strength in domestic appliances and of companies' determination to push forward the technological frontiers. But spokesmen emphasised yesterday that development of electronic systems for Italian housing poses particular problems because of the age of so many of its buildings.

"If we can produce answers for Italy, then we shall be very competitive elsewhere in Europe," said a spokesman for Zanussi which has promoted the Italian initiative.

The goal is to promote technologies which would allow the householder efficient and full control over the appliances and services she or he employs

The eight companies belonging to the interest group are Industrie Zanussi, Bassano Ticino, Domino, Easy-Caldorobot, Seleco, SGS Microelletronica, Societa Cavi Pirelli and Zeltron.

East Europe accord to reduce air pollution

BY LESLIE COLITT IN BERLIN

EAST GERMANY and Czechoslovakia have signed a five-year agreement to step up efforts to combat air pollution in their countries.

They will co-operate in developing processes to reduce emissions of sulphur dioxide and nitrogen oxide, according to the East German news agency. They plan to introduce anti-pollution equipment in more than 30 power stations, heating plants and factories. They are also to co-operate in ameliorating forest blight from acid rain.

● Berliner Bank, mainly owned by West Berlin, initialled a DM 50m loan last week to the Soviet Foreign Trade Bank to cover exports by West Berlin and West German companies to the Soviet Union. It was the first such Soviet credit granted by a West Berlin bank.

UK Attorney-General accused of dishonesty and contempt in MI5 case

Chris Sherwell reports on final arguments in court battle over former spy-hunter's memoirs

SIR MICHAEL HAVERS, the UK Attorney-General and senior law officer in the British Government, was yesterday accused of dishonesty and contempt over the MI5 spy memoirs case now being heard before the New South Wales Supreme Court.

The controversial accusations, made by the lawyer for author Peter Wright and hedged with few qualifications, shifted the spotlight of responsibility for Britain's much-criticised conduct of the case directly into the political sphere—up to and including Mrs Margaret Thatcher, the Prime Minister.

In an increasingly sensational hearing, the UK Government has been trying to prevent Heinemann Australia publishing the memoirs of Mr Wright, who retired 10 years ago as the British security services chief "mole-hunter" and now lives in Tasmania.

Yesterday's developments came during final submissions from Mr Malcolm Turnbull, Mr Wright's counsel. They were part of a wider attack on the British case and, specifically, the credibility of its chief witness, Cabinet Secretary Sir Robert Armstrong.

According to Mr Turnbull, Sir Robert's evidence and demeanour "showed him to be a man with no regard for the truth, rather a man determined to say whatever he felt would advance the Government's cause, regardless of its truth or falsity."

Mr Turnbull's allegation sprang from the British Government's key decision not to act against Chapman Pincher's Their Trade is Treachery—the 1981 book which first revealed that former MI5 chief Sir Roger Hollis had been investigated as a possible Soviet "mole." Mr Turnbull contends that the Government effectively authorised the book.

At an early stage in the case, Sir Robert stated it was the Attorney-General who had advised there was no basis for action against the book. Subsequently, he admitted this was incorrect and confessed he had misled the court.

Yesterday, Mr Turnbull denounced Sir Robert's evidence as "worthless." The Cabinet Secretary was the "classical fall guy . . . a man sent abroad to lie for his country," Mr Turnbull said.

But the real responsibility for his "disgraceful" conduct lay with "those in London who sent him here to lie and dissemble to this court."

For Mr Turnbull, that, in the first instance, meant Sir Michael Havers, the British Government minister with the formal responsibility for bringing the case before the Australian court.

Referring to Sir Robert's evidence prior to his admission that he had misled the court, Mr Turnbull said both Sir Michael and the Prime Minister had failed to use opportunities to tell the truth.

Though they had soon known what Sir Robert had said, they did not tell him to correct his evidence. "The only conclusion from these facts is that Sir Robert and Sir Michael were told to tough it out and maintain the deceit," Mr Turnbull alleged.

According to Mr Turnbull, it was only a week later—following pressure in the House of Commons from Mr Neil Kinnock, leader of the opposition Labour Party — that Sir Robert was told to tell the truth.

"The court should take the gravest view of the evidence concerning the Attorney's role in the Trade is Treachery affair," Mr Turnbull insisted.

It was impossible to believe that Sir Robert, together with Treasury Solicitor Mr John Bailey and Mr Bailey's deputy, Mr David Hogg, had not checked the answers given by *Sir Robert which had implicated* the Attorney-General personally, Mr Turnbull went on.

The best construction which could be placed on answers given to the court, he said, was that "Sir Michael Havers allowed Sir Robert Armstrong to give evidence in New South Wales which Sir Michael knew was false.

"In other words, if Sir Robert, Mr Bailey and Mr Hogg were honest and careless fools, then Sir Michael Havers was guilty of the worst form of dishonesty. He allowed another man to lie on his behalf and did nothing to correct it."

This conduct was doubly grave, given his status as Attorney-General, Mr Turnbull contended. If Sir Robert was innocent of any conscious deciet, then Sir Michael's conduct was "so dishonourable" it was a matter the court should take into account if it conisidered granting relief.

As to why Sir Robert should have "lied" to the court, Mr Turnbull said it was believed in Whitehall that attributing decisions to the Attorney-General would be accepted without question because of his special status.

"There was always a chance the court would accept this version of events, so long as the Attorney-General was prepared to take the rap. Once the pressure got too great, the truth emerged."

Sir Robert's credit was irreparably damaged, Mr Turnbull claimed, and his evidence could carry no weight. "It was held up as the considered views of the greatest civil servant in England, speaking on behalf of the first law officer.

"By any test, both men behaved *with a distinct* lack of candour. They have held this court in contempt. Their evidence is worthless."

Whether Mr Justice Philip Powell will accept all this remains unclear. One important sign of his thinking yesterday came during Mr Turnbull's arguments concerning Sir Robert Armstrong's credibility.

"It may be that in the long run, I will come to accept your view of Sir Robert," he said. "My inclination at the moment is against accepting the view that Sir Robert's evidence was deliberately and consciously misleading."

If he did decide that the evidence was of no use, he went on, this would be because "it really didn't carry the quality, authority and detail that was needed. . . In the long run, that would not lie to the fault of Sir Robert, but to those in Downing Street."

The judge must also decide whether the evidence supports the type of conspiracy implied by Mr Turnbull. The fact of Sir Robert's admission, made following Sir Michael Havers' complaints, may be seen as undermining the force of his allegations.

At one point during Mr Turnbull's submissions on Sir Robert Armstrong, Mr Theo Simos, QC, acting for the UK Government, leaped to his feet, saying it was "gross professional misconduct" for an attorney to express personal views in court, and he suggested Mr Turnbull was not immune from possible defamation actions.

Mr Turnbull also dealt in detail yesterday with the British contention that Mr Wright is bound not to disclose information because of *life-long* obligations stemming from his work for MI5.

There was no contract, and no sense in saying Mr Wright had a fiduciary obligation, Mr Turnbull said. Moreover, the indirect enforcement abroad of a penal law such as the Official Secrets Act could not be allowed.

As for the detriment which Britain claimed it would suffer through the publication of information by an "insider," Mr Turnbull heaped derision on the distinction between an "insider" and an "outsider."

As he put it, an air force officer drawing plans for a *cruise missile* from memory 10 years old was unlikely to be as accurate as a journalist who had obtained them from an "insider" source currently working in the same force.

Mr Turnbull continues his submissions today and is only likely to finish on Friday. Mr Simos has the right to make further submissions in response before the judge retires to consider his decision.

A legal ban on the distribution in England and Wales of the memoirs of former MI5 officer Ms Joan Miller was challenged in the High Court in London yesterday.

Turnaround Distribution Ltd and two booksellers asked Mr Justice Simon Brown to discharge an injunction he granted to Sir Michael Havers, the Attorney-General, last month. The judge said he would give judgment this morning.

Egypt wins reprieve on US debt

BY TONY WALKER IN CAIRO

EGYPT, which is suffering from acute financial problems, has been given a partial reprieve on its crushing military debt to the US following Washington's decision to allow borrowers to restructure repayments on more favourable terms.

Egypt will be entitled, under measures announced this week, to refinance its military debt to the US of \$4.3bn (£3bn) at prevailing commercial interest rates of about 7.5 per cent instead of the average 12 per cent at which it borrowed the funds between 1979 and 1984.

Egypt's repayments on its military debt of about \$550m annually will be reduced by about \$200m, as a result.

However, Egypt, like other US military debtors, will eventually have to pay the difference between the rate at which it borrowed and the new more favourable interest rate.

It will also have to pay interest on the deferred portion, meaning that at the end of Egypt's military debt repayment period in 2009 there will be a substantial residual amount to be settled.

Announcement of the new military debt refinancing coincides with discussions in Cairo between Egyptian officials and Mr Peter McPherson, head of the US Agency for International Development (AID), on Egypt's proposals to reschedule its foreign debt and its negotiations with the International Monetary Fund, which appear to be making progress.

Egypt's debt is expected to be the subject of informal discussions at the Paris Club this week as a prelude to more detailed negotiations in the New Year.

Meanwhile, indications from Washington are that an IMF team will return to Egypt in January for talks on reforms of the Egyptian economy as the price of IMF assistance.

According to the latest IMF report, Egypt's debt reached \$38.6bn at mid-year. Arrears of debt service payments grew from \$800m in mid-1982 to \$4.4bn this year.

Enrile launches campaign against Aquino

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINES former Defence Minister, Mr Juan Ponce Enrile, yesterday launched an official campaign of opposition against President Corazon Aquino saying her ceasefire with Communist rebels had given the left a "political victory."

In his first major public appearance since Mrs Aquino sacked him in November, Mr Enrile *effectively said* he would campaign against ratification of a new constitution that goes to a plebiscite next February.

Mr Enrile's return to the political stage will provide a charismatic focus for the opposition in the country.

During his nine months in the Cabinet, Mr Enrile regularly criticised Mrs Aquino. He was a silent but active member of the Nationalist Party which is actively campaigning against the ratification of the Constitution.

Mr Enrile said he will tour the country in January "telling the people how things are," and that he would stand as an Opposition candidate in Congressional elections next May.

The plebiscite is a crucial test of confidence in Mrs Aquino's Government. Her advisers and Mr Enrile agree that a 65 per cent vote in favour of the Constitution would confirm the legitimacy of her presidency.

Mrs Aquino took power in February in a civilian-backed military revolt and abolished the old Constitution which she claimed had supported former President Ferdinand Marcos.

For the past two weeks, voters have been registering for a new electoral list.

Karachi riot death toll rises to 170

By Mohammad Aftab in Karachi

The death toll in Karachi's ethnic fighting yesterday increased to 170, with the recovery of three bodies from the city's riot-torn areas, while the total number of injured for the past four days rose to 635, doctors in various hospitals said.

Only minor clashes occurred yesterday, and these left 35 injured, some with stab wounds, according to the doctors. Liaquatabad, Korangi and Federal Area were the scene of the violence, which entered its fourth day since clashes began last Sunday.

Doctors said that nearly 90 per cent of the dead and injured belong to the Urdu-speaking Mohajir community, while the remaining are Pathans attacked Mohajirs.

Sunday's riots flared when several hundred rifle-wielding Pathans attacked Mohajirs

Thousands of soldiers continued patrolling nearly two-thirds of Karachi, to ward off any major resumption of ethnic rioting.

Curfews were twice lifted for two intervals of two hours each, for the first time since Sunday, to enable people to buy food. Late last night, troops opened fire on curfew violators, killing two and injuring four.

South African 'abducted from Swaziland'

Police in Swaziland yesterday reported that another group of armed raiders believed to have come from South Africa abducted Mr Roy Zahee, a South African Indian, from an isolated Swazi rest camp, our Foreign Staff writes.

The reported raid folows last week's similar attack in which two Swiss citizens were abducted, interrogated in South Africa and then returned after protests from both Switzerland and Swaziland

Meanwhile, South African police yesterday said three men were arrested and ammunition of Soviet origin confiscated after they intercepted a light truck at a Swaziland *frontier post* on Monday.

● British trades unions are taking legal advice on whether t ochallenge in South Africa a decision to ban material produced by the British Trades Union Congress on the issue of apartheid, Philip Bassett writes.

Palestinians give way on power company

THE JERUSALEM District Electric Company, the largest remaining Palestinian enterprise in the Israeli-occupied territories has reluctantly agreed to surrender part of its historic electricity supply Israel Electric Corporation, writes Andrew Whitley in Jerusalem.

In return for giving up 5,000 Jewish customers living in Arab East Jerusalem and the West Bank, steps will be taken over the next six weeks to resolve the Palestinian utility's pressing debts of \$16m (£11.3m) to the Israeli Government.

A symbol of lingering Palestinian hopes that, one day, they may have their own homeland again, its admission of partial defeat in this long-running dispute with the Israeli authorities is certain to generate considerable anger among Palestinians.

Moroccan debt

The \$1.6bn (£1.13bn) worth of principal debt which Morocco and its international bank creditors have agreed to reschedule carries a margin over the interbank rate of $1\frac{1}{16}$ per cent and not $1\frac{1}{8}$ per cent as published in the Financial Times on Tuesday.

Kenya takes advantage of windfall in resources

BY VICTOR MALLET RECENTLY IN NAIROBI

KENYA'S economy, already the envy of less successful African countries, is riding on the crest of a wave. The price of imported oil remains low, coffee exports are booming because of drought in Brazil and hotels are packed with tourists.

"We have not enjoyed such a favourable combination of economic events since the mid 1970s," Mr George Saitoti, Finance Minister, said in his budget speech. "What we are experiencing currently, and probably in 1987, are windfall resources that have afforded us a chance to work on our long-term structural problems."

The Kenyan Government is looking for an average annual economic growth rate of 5.6 per cent up to the year 2000, compared with 0.9 per cent in 1984 (a year of drought), 4.1 per cent last year and an estimated 4.5 per cent in 1986.

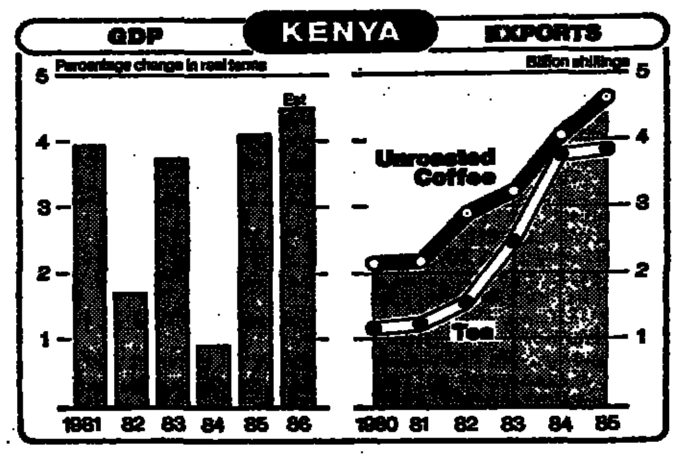
The figures are not quite as good as they look. Kenyan women have an average of eight children each and the population of 20m is growing by four per cent a year, one of the highest rates of increase in the world.

"We as a nation need to improve Kenya's investment climate and attract both domestic and foreign investment on terms that contribute to renewed growth and employment creation," said Mr Saitoti in June, anticipating a surge in private investment this year.

But no such surge has materialised and the stagnant state of foreign and domestic investment has begun to cast doubt on whether long-term economic growth can outstrip the rate of population increase.

Foreign investments flowing into Kenya—British companies have the largest stake with about £1bn invested — are thought by economists to be matched by investment outflows. A few companies have begun or expanded operations but others, including Firestone, Mobil and Cadbury-Schweppes, have been disinvesting over the last few years and selling to local buyers.

Government ambivalence towards foreign business is partly to blame. The talk of "Kenyanisation" has now turned to "indigenisation." Clearing and forwarding agencies have been told to secure majority Kenyan ownership, although President Daniel arap Moi's demand earlier this year that foreigners must grant at least a 51 per cent interest in new joint ventures to African Kenyans has been officially brushed under the carpet as nothing more than a long-term goal.



Kenyans interpret the word "indigenisation" as excluding local whites and Asians. Yet the 70,000-strong Asian community, already jittery about the remote possibility of a *coup d'etat*, dominates important sectors of the Kenyan economy and could make a vital contribution *to the growth of domestic investment*.

Other obstacles to increased investment in Kenya include price controls which limit profits, complex bureaucratic problems for new investors and a shortage of incentives to compete with other investment-hungry developing countries.

Businessmen say the Government should have taken advantage of this year's favourable economic conditions to ease price controls substantially and thus risk a politically sensitive step in good times rather than bad.

By African standards the outlook is far from gloomy. While the possibilities for import substitution of consumer goods are virtually exhausted — Kenya imports only 15 per cent of its consumer products—there are opportunities for investment in export industries and production of intermediate goods.

Kenya, an industrial leader like Zimbabwe in the south, stands to gain from any improvement in trade between black African countries and prospects have brightened since the return of a relative calm to neighbouring Uganda.

Comprehensive sanctions against South Africa, however, could deprive Kenya of as much as \$50m a year in landing fees and other benefits from airliners on their way to Johannesberg, although the loss might be partially offset by increased trade with countries now dependent on South African goods and services.

Long-standing confidence in Kenya was shaken by the failed coup attempt involving members of the airforce in 1982. Tension has eased since then, although unfounded rumours of trouble, sometimes reflecting nervousness among Asians who bore the brunt of the violence in 1982, are *frequent*.

The Socialist Mwakenya Movement, accused of planning an anti-goverment guerrilla campaign, seem to have been stifled by detentions and continuing court cases. But tribal animosities persist between Mr Moi's minority Kalanjin ethnic group and the powerful Kikuyu, while the influential Christian churches have angered some members of the Government by publicly criticising decisions of the ruling Kenya African National Union (Kanu), the only legal political party.

Kenya's short-term economic prospects are undoubtedly rosy. The Government says that inflation in 1986 could be as low as 6 per cent, half the forecast, and the country's total debt service ratio is set to fall from around 30 per cent. Agriculture for domestic consumption and export crops such as coffee and tea are thriving in good weather. Kenya is expected to show a balance of payments surplus of about \$125m in 1986, after a deficit of \$94m last year. Foreign reserves of \$400m are enough to cover three and a half months' imports.

Longer term prospects are uncertain. There are few signs that Kenya is succeeding in breaking away from its "boom and bust" cycle based on volatile commodity exports, in spite of ambitious plans for industrial reform and an expansion of the informal sector. Nor has Kenya decisively tackled its population problem, raising the spectre of mass unemployment and its associated ills in the future.

US 'gave big discount to Iran arms middlemen'

BY LIONEL BARBER IN WASHINGTON

THE US arms sold to Iran were sharply discounted to the middlemen involved in the deals, a member of the Senate Intelligence Committee probing the scandal said yesterday.

Mr William Cohen, the Maine Republican, suggested that the discounts might have been introduced to create inflated profits in the sales chain that could be used for other purposes, such as secret aid to Nicaraguan Contra rebels.

Mr Cohen spoke after closed-door testimony from Mr Caspar Weinberger, the US Defence Secretary, who opposed the arms sales.

According to congressional testimony by Administration officials, Iran paid about $30m for the arms, of which $12.2m was reimbursed to the Pentagon. The $12.2m for the weapons, which included more than 2,000 anti-tank missiles, is nearer a wholesale price.

One theory is that the US underpriced the weapons sold to middlemen who then charged a lot more to Iran. Some of the profits could then have been used for supplying the Contras.

Another theory is that the weapons were deliberately sold cheaper to skirt laws demanding Pentagon notification to Congress of foreign weapon sales exceeding $14m.

President Reagan's image in the polls is continuing to suffer from the arms scandal.

In spite of strenuous efforts by the White House to turn round public opinion, the latest CBS News-New York Times poll shows that President Reagan's job performance is below 50 per cent, almost 20 per cent below ratings taken last September.

The President's tactic of seeking limited immunity for two key witnesses in the scandal —the sacked White House Aide Lt.-Col. Oliver North and former National Security Adviser Vice-Admiral John Poindexter—met with opposition fro mleading senators and congressmen involved in House and Senate inquiries.

Lawmakers said that it was premature to grant immunity to the witnesses, ignoring Mr Reagan's claim that it was the fastest way to get the truth out into the open.

There were further bizarre revelations yesterday about the undercover role of Lt-Col North. The Los Angeles Times, quoting unidentified sources, said he had planned to free American hostages held in Lebanon not by selling arms to Iran but by kidnapping relatives of Iranian government officials.

Under the kidnap, the Iranians would be held in cages in Europe and then "crated back" to Iran once the Americans held in Beirut were released by the pro-Iranian guerrillas.

● **AP reports from Managua:** President Daniel Ortega of Nicaragua has requested a pardon for US mercentary Mr Eugene Hasenfus, who is serving 30 years for ferrying arms to Contra rebels, the Sandinista Government annouiced yesterday.

It said the National Assembly would consider the reqeust as quickly as possible.

President Reagan is to enter hospital next month for urinary tract surgery, the White House announced yesterday.

The surgery, involving the removal of small amounts of tissue from the urinary tract, is scheduled to take 30 to 40 minutes and will be conducted under local anaesthetic.

Mr Larry Speakes, White House spokesman, said he was unaware of any connection between the President's prostate problem and his colon cancer surgery last year.

US proposes merit-based pay for federal employees

BY NANCY DUNNE IN WASHINGTON

THE REAGAN Administration will propose a new system of granting pay rises to the 1.2m federal employees which would base increases on merit rather than time served.

According to the Washington Post, the Office of Management and Budget has proposed a scheme which would eliminate most pay increases given as employees advance almost automatically through various grades. About $700m now set-aside for automatic rises in the fiscal 1988 budget would be distributed instead for good job performance.

The proposal is likely to be strongly opposed by the government employees' union, and Congress has been wary of any system which could allow politicisation of the federal bureaucracy.

The proposal comes as the Administration is considering proposed large pay rises for the top 3,000 government officials, including members of Congress and the Cabinet and federal judges. Under the proposal, congressmen, who now earn about $75,000 a year, could have their salaries raised to almost $100,000 a year.

The rises are proposed by the commission on executive, legislative and judicial salaries, which argued that real earnings of government executives had declined by 40 per cent since 1969.

GNP rise revised to 2.8%

THE US Gross National Product, after removing the impact of inflation, increased at a revised annual rate of 2.8 per cent in the third quarter, the Commerce Department said, Reuter reports from Washington.

This was down from last month's estimate of a 2.9 per cent rise, but was above the 0.6 per cent increase in the second quarter. GNP rose 4.1 per cent in the third quarter of 1985.

The downward revision amounted to only $900m (£638m) and reflected a number of small, mostly off-setting changes, including higher personal spending, a lower trade deficit, and smaller government purchases.

Venezuelan debt move

VENEZUELA has asked for a reduction in its interest rate margin as well as two-and-a-half years' grace on is $21bn public sector debt rescheduling, signed last February, said Mr Jorge Marcano, Public Finances Director, Reuter reports from Caracas.

Mr Marcano was speaking to reporters shortly before returning to New York for further talks with Venezuela's 13-bank advisory committee.

The existing accord carries an interest margin of 1⅞ per cent over the London interbank offered rate (Libor), no grace period or new money, and a repayment schedule of 12½ years which would be lengthened to 15 under the Venezuelan proposal.

Mr Marcano last week discussed the proposals with bankers, after the Government announced a new private debt plan. Creditors had insisted that a mechanism for paying the $7.8bn debt should be in place before proceeding with public sector negotiations.

● The International Monetary Fund has approved SDR 106.7m ($127.8m) of loans for Bolivia, adding to a SDR 50m standby agreed earlier in the year.

The new package comprises SDR 64.1m of compensatory financing and a SDR 42.6m structural adjustment, facility of which SDR 18.1m may be drawn immediately.

Defection of Quebec MP strengthens left-wing party

BY BERNARD SIMON IN TORONTO

CANADA'S left-leaning New Democratic Party has gained its first parliamentary representative from Quebec with the defection of an MP originally elected for the ruling Progressive Conservative Party.

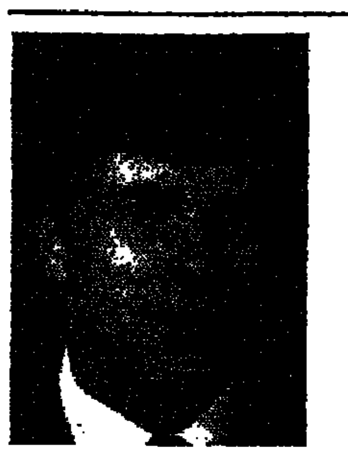
Although the NDP has yet to win an election in Canada's only predominantly French-speaking province, the decision by Mr Robert Toupin to join the most ideologically committed of Canada's three main parties is widely regarded as an important breakthrough in the NDP's recent efforts to bolster its support in Quebec.

Mr Toupin, a controversial MP who represents a rural constituency north of Montreal, has sat as an independent in the House of Commons since leaving the Tories last May in protest against the Government's pro-business policies.

Quebec, which elects 75 of the Commons' 282 members, is a key to electoral success in Canada. Hampered in the past by its identification with English-speaking trade unions and academics, the NDP has recently given high priority to building up a credible organsation in Quebec in an effort to capitalise on voters' disenchantment with the Tory Government.

SDI research team with a $100m budget calls on scientists to look beyond the X-ray laser space weapon

Wanted: revolutionary ideas for Star Wars



David Fishlock, Science Editor, interviews Dr James Ionson (left), one of the six technical directors of the Strategic Defence Initiative.

Dr Ionson's Innovative Science and Technology Office is already examining ideas for the next generation of lasers, beyond the secret X-ray lasers that his co-directors are now trying to engineer into weapon systems.

THE OFFICE of Dr James Ionson is awash in bright ideas, pouring in at the rate of 2,000 a year. They run the gamut from pure genius to pure absurd.

They come from scientists soliciting a share of his $100m research budget for 1987 for the Star War concepts of the next century; the ones which require a truly huge bound in imagination.

Dr Ionson is one of the six technical directors who share the technologies of the Strategic Defence Initiative (SDI) research programme in Washington.

His organisation conducts the US research and development programme into nuclear missile defence. Since the resignation last summer of Dr Gerold Yonas, as chief scientist, all six have effectively been scientific advisers to Lt-Gen James Abrahamson, director of the Strategic Defence Initiative Organisation (SDIO).

But whereas Dr Ionson's five co-directors are primarily concerned with mounting large-scale "public" demonstrations of SDI technologies – the lethal abilities of beam weapons or the efficacy of target acquisition, for example – his own responsibilities are for "the experiments of the future, the ones that don't exist yet."

"Our investment is primarily in the human brain. We can get a lot of brains per dollar compared with the other directorates," he says.

Dr Edward Teller, *eminence grise* of the SDI programme, has talked of this part of the programme as unclassified, innovative apporaches that might advance the technology by one to two orders of magnitude – up to 100 times.

Dr Ionson, a youthful physicist in his mid-30s with a daunting academic record, was recruited to the SDIO from Nasa's Goddard Space Flight Centre near Washington where he was running research into theoretical plasma physics.

He exudes boyish enthusiam for the whole SDI programme and specifically for his own task – long-range research – representing 3–4 per cent of the SDI budget. "The wealth and richness of technology that comes across my desk every day is very satisfying."

For example, his Innovative Science and Technology Office is deep into ideas for the next generation of lasers, beyond the highly classified X-ray lasers his co-directors are now trying to engineer into weapon systems.

He is excited by ideas for a gamma-ray laser, of still shorter wavelength and therefore of even greater penetrating power than X-rays. One idea he is funding aims to cook carefully selected ingredients in a nuclear reactor, to create a novel kind of crystal in which an immense amount of energy is stored.

Such crystals – called nuclear isomers – exist. The trick is to find a way of releasing their stored energy when, and only when, it is needed – and without shattering the crystal. A Dallas professor at Texas University is one of the scientists working for him on this idea.

A gamma-ray laser based on such metastable materials might be the basis of a new beam weapon, not only more lethal but much more compact, and better able to distinguish between nuclear warheads and decoys at long range. It would also be of immense interest to science, Dr Ionson observes.

In the past year his office has funded 37 different project areas, from the gamma-ray laser to ideas for immensely strong materials from which to make the "rocks" hurled by kinetic energy weapons at speeds 10 times as great as present-day ordnance travels: between 10,000 kilometres per hour and 15,000 kmh.

Already his office has received more than 3,000 research proposals. Over 500 separate contracts have been signed, involving 3,000-4,000 scientists.

He sees himself as the orchestrator for a team of about 50 who mount peer reviews of proposals in a manner traditional to science, to judge whether an idea is worth funding. "I set the direction of the programme and the emphasis certain programmes should receive."

Dr Ionson airily dismisses academic attempts to mount petitions in which scientists are asked to undertake not to participate in his programme. "It's easy to turn down something you have not been offered."

He says the number of scientists whose ideas have been turned down by his office exceeds the number who signed the US petition. An attempt by British scientists in October to mount a similar petition even gave publicity to a Nobel laureate who has already foresaken his physics in favour of transcendental meditation.

"We're looking for revolutionary rather than evolutionary ideas – and they are hard to find," Dr Ionson says. Nevertheless, he is funding ideas at the rate of about 100 a year.

As a proportion of the proposals submitted, he claims it is comparable with the experience of the National Science Foundation, which funds academic science in the US.

But 10 times as many ideas have been flooding in from US scientists as from those overseas. So far he has funded fewer than a score from abroad, mostly in Britain (12) and Israel. A document his office is drafting should make it simpler for scientists to discover his needs, he says.

How does Dr Ionson feel about the objectives and prospects for success of the SDI programme? Two doyens of the US science scene proposed last month that the entire programme should be submitted to peer review by "a panel of America's most distinguished scientists, statesmen and military people."

"I believe in the programme," Dr Ionson says with conviction. Whether SDI will work depends upon how the political and military requirements are defined."

He believes it will become possible to begin to deploy an SDI defence by the early-1990s and to have it in place by the end of the century.

It would not be a beam weapon defence, however, but one based on kinetic energy weapons, both space-based and ground-based. Such weapons use no explosives but depend on the energy dispersed in an extremely high-speed collision between "rock" and target to blow the target apart.

A more robust defence, designed to accommodate a major enhancement of the Soviet ballistic missile armoury, would need the still faster beam weapons and a battle management system of commensurate speed, suggesting computing power which simply does not exist today.

Dr Ionson is dismissive of those who simply estimate the number of lines of computer code such a system may need and declare the aggregate "impossible." They simply don't have the imagination he is seeking, he says.

David Barchard reports on a Turkish joint venture scheme to attract foreign investors

Ozal model sets pattern for the future

IF TURKEY'S planners have their way, a decade from now the country's industrial landscape will be scattered with joint ventures built on a franchise model designed by Mr Turgut Ozal, the Prime Minister.

The joint ventures are designed to attract an inflow of foreign investment, managers and technicians. Optimism is growing, for example, about Turkey's chances of reaching agreement with a foreign consortium to build an electrical power station.

Government officials say that talks are now entering their last lap and agreements to go ahead with construction could be signed as early as January.

Dr Yusuf Bozkurt Ozal, head of the State Planning Organisation, is expected to travel to the US shortly for talks with Eximbank about a $400m loan for a project to build a 1,200 MW powerplant at Tekirdag on the Sea of Marmara, using imported coal.

A pricing formula for the sale of electricity from the plant has not been agreed yet, but the remaining area of disagreement is for how long the Turkish Government will be expected to come up with a subordinated loan if the project runs into serious difficulties.

The consortium is headed by Bechtel Corporation of the US. Brown Boveri and Company (BBC) are leading a consortium for a rival $1,700m thermal power plant at Ambarli, and Westinghouse of the US, together with Seapac of Australia and Chyoda of Japan, are negotiating for a similar venture at Iskenderun on the Mediterranean.

Apart from the coal-fired power projects, Turkey is also negotiating a wide range of infrastructural projects with foreign companies on the Ozal build-own-transfer model, including an expansion of Istanbul Airport with a world trade centre for which six different consortia from the US and Europe are bidding: the third Bosporus Bridge; a new railway route between Istanbul and Ankara for which Sofrerail of France is bidding against a Japanese consortium; and a wide range of hydroelectrical Negotiations on 12 of these are already under way.

The build-own-transfer, or Ozal, model, is a scheme to finance power stations and infrastructure projects whereby, instead of relying on traditional turnkey financing, a foreign consortium forms a joint venture with a Turkish state corporation.

Ozal: designed the build-own-transfer scheme

The joint venture finds the finance, builds the plant and operates it for an agreed period of 15 years during which it aims to recover its costs and make a profit. At the end of 15 years the plant is handed over to the Government.

Turkey favours the build-own-transfer model for several reasons. It enables a country to engage in development projects it could not otherwise raise the cash for and is a form of foreign investment which may encourage other investment to flow into the country. Because management and construction companies are involved, projects built on this basis should go up more quickly than those built on a turnkey basis, and will be managed and operated by joint venture companies in which there is a foreign majority holding.

The main stumbling block has been the search for a water-tight formula which would guarantee both sides against political hazards such as a change of government and natural or man-made disasters.

To win the agreement of foreign investors who will own 55 to 60 per cent of the equity of joint venture projects, Turkey has leant over backwards as far as it can manage.

The deals will be denominated in baskets of foreign currency. Payment will be made to or from escrow accounts, preferably with banks based in Turkey. The Turkish partner in the venture will have a legal obligation to pay on time.

If the partner does not have the funds to pay, then the Turkish Treasury must step in under a back-up agreement and make the payment to the escrow account. This will not be a sovereign guarantee, but the contract will be enforceable under Swiss law.

An insurance fund will be built up which, after four or five years, should be equal to the projects' outstanding debt. If a failure occurs during operation, this fund will automatically come into play. If there is a disaster or delay during construction, then the consortium will put up one year's stand-by finance and the Turkish Government will put up two more years of finance in subordinated loans, covering the project for a total of three years.

The drawback for Turkey is that the arrangement is at least 10 per cent (some bankers say much more) above traditional turnkey project cost.

The current of exploratory approaches from foreign companies which the Turkish Government has received indicates that the country is attractive to suppliers. But for the banks, Turkish risk may impose a firm limit on the number of projects which get the go-ahead.

Alarm at US curbs on machine tool imports

By Andrew Fisher in Frankfurt

THE West German machine tool industry reacted with surprise and alarm to the news that the US had decided to place limits on future exports to its biggest market.

The Swiss, who also face curbs on the exports of machine tools to the US, warned that they would complain to the General Agreement on Tariffs and Trade if their exports were barred.

Neither the German machine tool industry association nor the Bonn Government, however, was ready yesterday to say how they would react to the decision from Washington. More study was needed.

The US has been stepping up its purchases of German machine tools. In the first nine months of 1986, German sales of machine tools to the US jumped by 39 per cent to DM 730m. Thus the final figure for the year is expected to be around DM 900m compared with DM 849m in 1985.

Officials of the industry association said German sales in the categories singled out for action by the US—lathes, machining centres, punching and shearing machines—are a small part of the US import total.

Moreover, they added, the overall German sales surge to North America would be considerably dampened next year, as the new order inflow to German producers from the US has fallen by as much as 40 per cent in 1986.

The US move follows agreement with Japan and Taiwan on voluntary export restraint for the next five years.

Some industry sources said the Japanese, whose US market penetration in multi-purpose machinery centres and lathes has been dramatic, could try to unload products on other markets.

This could thus open up the danger of protectionist moves in other countries, especially in Europe. After Japan, West Germany is the second largest exporter to the US of machine tools followed by Italy and Switzerland.

German machine tool sales to the US account for about 14 per cent of the industry's total foreign deliveries. Of US imports in the four categories covered by the new curb, Germany made up only 2.9 per cent in machining centres but 8 per cent in lathes and 15 per cent in punching and shearing machines.

Reuter adds: Mr Mario Corti, trade representative in the Office of Foreign Economic Affairs in Berne, said Switzerland would not take any measures of self-restraint on exports, which he said would undermine established principles of trade.

Switzerland will defend itself if necessary against the threatened US restrictions in the context of the General Agreement on Tariffs and Trade."

US may delay action on Brazil software law

By Nancy Dunne in Washington

A FLURRY of meetings in Washington this week could well lead to a delay of US action against Brazil in its long-running battle over Brazil's protection of information technology.

The top-level US economic Trade Policy Council is expected to discuss the dispute this week, in the wake of a meeting with industry representatives.

Sources close to the discussions said the Reagan Administration may agree to delay its self-imposed December 31 deadline for resolution of the dispute since the Brazilian Congress cannot act until it returns from recess in February.

On December 9 Brazilian President Jose Sarney sent to the Brazilian Congress a proposed new software law, which the US Computer and Business Equipment Manufacturers' Association (CBEMA) has called "unacceptable."

The proposal would extend Brazil's market reserve programme to software and, says the association, it adopts "a novel approach to copyright protection . . . that does not conform to international norms."

Industry representatives have, however, advised the US trade representative to accept a settlement if three conditions are met:

- The Brazilian Government provides adequate protection for intellectual property rights;
- It agrees not to extend its informatics law beyond 1992 and not to expand it in the interim.
- It agrees to regular policy level discussions to further liberalise the law.

"We're after clarity," said Mr William Maxwell, a spokesman for CBEMA.

"What are the rules? We must have protection of copyrights. Every other civilised country has agreed that software should be covered by a copyright law."

McDonnell and Boeing focus on Alitalia contract

BY JOHN WYLES IN ROME

ALITALIA has become the focus of competition between Boeing and McDonnell-Douglas for a $1bn (£700m) order for 10 aircraft to replace its ageing fleet of Boeing 747s.

The presidents of both US aerospace companies have visited Rome recently to present purchase deals which would involve sub-contracting work for Aeritalia, the Italian state-owned aerospace company.

Appearing before a parliamentary committee yesterday, Mr Umberto Nordio, the president of Alitalia, said yesterday that the sub-contracting work on offer from both companies was worth "several thousand billion lire and countless jobs."

The cost of replacing Alitalia's six all-passenger and five combined passenger/cargo Boeing 747s would be $1bn for 10 Boeing aircraft, said Mr Nordio, "and a little less for McDonnell-Douglas."

The Italian airline was under pressure to make a quick choice, said Mr Nordio, because McDonnell-Douglas had put an early deadline on its offer and "because we want to exploit a competitive situation to obtain a reduction in prices."

Competition between the two US companies has been sharpened by McDonnell-Douglas's search for about $3bn of orders needed to launch formally its new long range MDII tri-jet. So far it has taken orders for 14 aircraft worth around $1.5bn and an Alitalia order for 10 or 11 aircraft would take it near its goal.

For its part, Boeing is putting its formidable marketing effort behind its 767 aircraft. Since Alitalia flies both Boeings and McDonnell-Douglas jets the decision may depend on the value of sub-contract work.

Aeritalia is already collaborating with both US companies in contract to the larger western European aerospace companies which are participating in the Airbus programme. The interests of Alitalia and Aeritalia are linked through their parent, Iri, the state holding company.

According to some Italian observers McDonnell-Douglas might have more to offer on the collaboration front since Aeritalia is already producing parts for the 767. However, Mr Nordio seemed to be implying yesterday that the two sets of proposals were roughly equal on this front.

General Electric of the US has signed a $135m agreement with the Peking regional administration of the Civil Aviation Administration of China to supply GE jet jets, writes Michael Donne, Aerospace Correspondent.

Three four-engined Boeing 747-400 Jumbo jets and two Boeing twin-engined 767-200 ERs (extended range) will be fitted with the GE CF6-80C2 engines, plus spares.

The CF6-80C2 is the latest and most advanced of GE's CF6 series of high-bypass turbo-fan jet engines.

Deliveries will begin in the first quarter of 1988 for the engines for the 767s, and in the first quarter of 1989 for the engines for the 747s.

Shanghai was the first CAAC regional administration to order the CF6-80C2 engines. Its two Airbus Industrie A-310-300 aircraft with these engines are scheduled for delivery in mid-1987.

Ansaldo in Mexico deal

BY OUR ROME CORRESPONDENT

ANSALDO, the Italian state-owned electrical engineering group, has won a contract worth more than L50bn (£25m) to supply four turbogenerators for Mexican power stations.

The generators, with a total output of 770 megawatts, will be installed in oil burning electric power stations at Valladolid and Altamura.

Ansaldo says it beat strong international competition for the order from the Mexican electricity authority, CFE. The contract also covers installation of the generators and servicing and technical supervision.

More than 40 per cent of the value of the order will be manufactured in Mexico with technical assistance from Ansaldo.

Thailand finalises wide countertrade programme

BY FRANK GRAY

THAILAND is putting the finishing touches to a wide-ranging countertrade programme it hopes to start in the new year.

A private-sector report on countertrade has been submitted to the Thai Government and is being considered by a joint public sector-private sector consultative committee.

Bankers and countertrade specialists in London say a final plan is soon to be submitted to the Council of Economic Ministers for approval, after which it will be handed over to government agencies and state enterprises.

The aim of the programme is to boost exports of goods affected by low prices and surpluses. As the country's economic base is agricultural goods, it is thought the new programme will emphasise the sale of rice, rubber, maize, and tapioca, its primary commodities.

The interest of the government is becoming directly involved in countertrade means Thailand is set to join Indonesia and Malaysia as the leading south east Asian nations with government-established countertrade policies.

The Thai programme also embraces the idea of taking payment in kind for its own goods. It will examine the goods it is to receive on state-to-state and state-to-private sector dealings on a case-by-case basis.

Swissotel to operate $125m Chicago hotel

BY JOHN WICKS IN ZURICH

SWISSOTEL, the hotel management company owned jointly by Swissair and the Nestlé group, is to operate what it says will be Chicago's first world-class conference hotel.

The $125m Swiss Grand Hotel, due to open in early 1989, will be a 43-floor triangular building located close to Grant Park and the lakefront in central Chicago.

As well as offering 648 rooms, it is to contain 51 000 sq ft of conference and banquet facilities. These will each include track lighting, audio-visual installations and flexible seating for 80 people.

A theatre-tiered seminar room will be fitted with a television production studio for satellite links.

Designed particularly for business travellers, the Chicago hotel will provide access for its guests to computers, data banks, advanced communications equipment and guest rooms able to function as executive offices.

Swissotel is also to open a Swiss Grand Hotel in Seoul next autumn. Located in a park in the Lotus Hill sector of the south Korean capital, this will offer 402 rooms and suites, executive floors, a business centre and large conference and banqueting halls.

At the same time, an apartment complex with 120 luxury two- to four-room apartments will be inaugurated under Swissotel management on an adjacent site.

The Swiss group now manages a total of 12 hotels.

After having concentrated to date on Europe and the US, it recently opened the Crystal Palace in the Chinese city of Tianjin with 320 rooms and 30 suites and also conference facilities.

Japan robot output to fall by 7%

BY IAN RODGER IN TOKYO

JAPAN'S robot production will drop 7 per cent this year to Y280bn (£1.2bn), mainly because of the slump in manufacturing investment in Japan, according to the Japan Industrial Robot Association.

This will be the first decline in Japan's robot output since 1980, and is a blow to the industry's image of high-technology and high growth.

Since 1980, when the industry's output was worth Y80bn, it has enjoyed annual growth rates of 10 per cent to 30 per cent. Many producers have also acquired strong reputations in the world market. About 20 per cent of Japanese robots are exported.

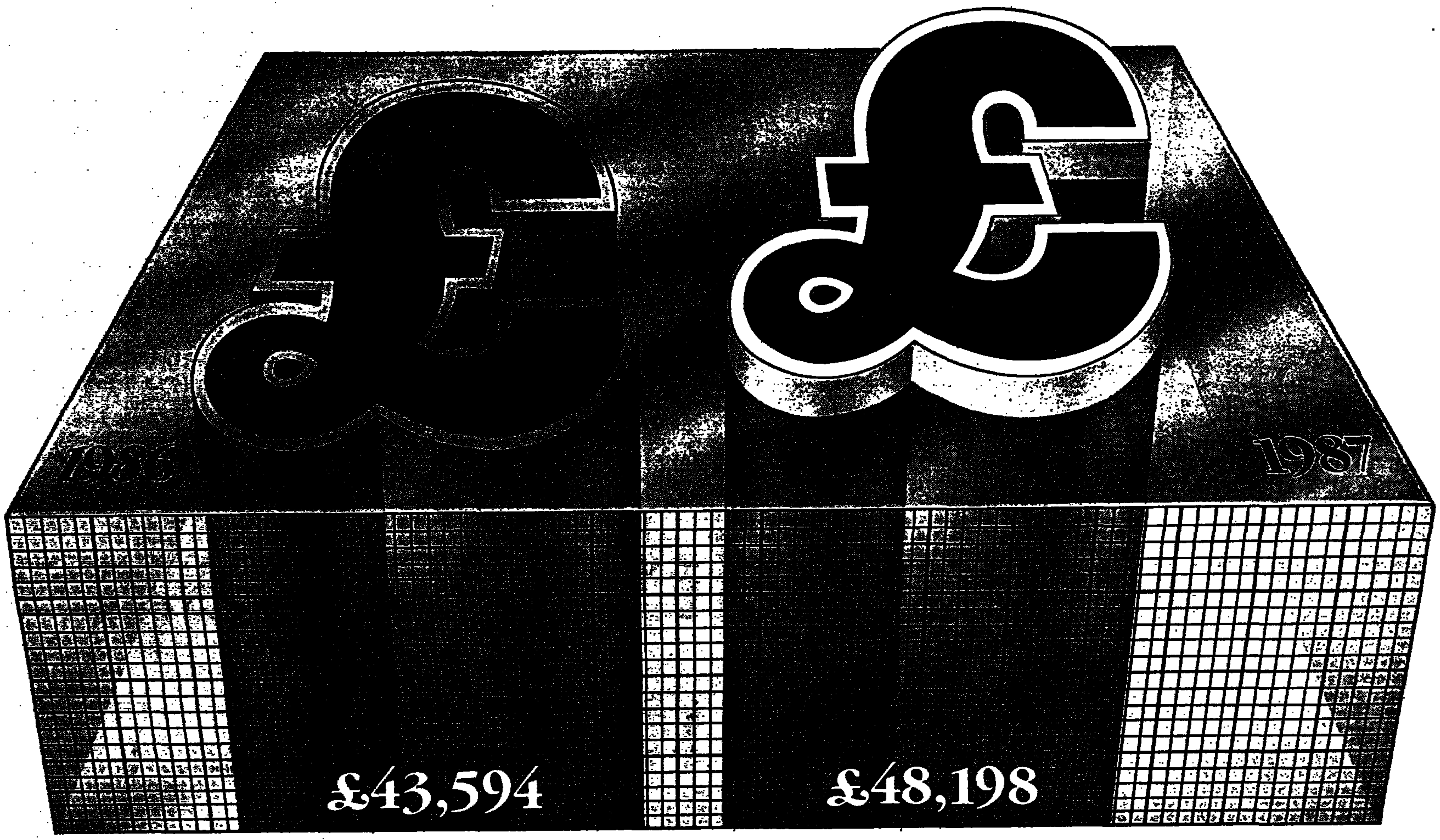
This year exports, too, have suffered, notably because of order cancellations by General Motors of the US for systems from its affiliate GMF, a joint-venture with Fanuc of Japan.

Mr Ben Moyer, an analyst with Merrill Lynch Securities in Tokyo, said: "There are about 200 robot-makers in Japan. Many of them are so small that no one would notice they have gone."

Analysts say the stagnation of growth could accelerate a shake-out in the industry.

مكتبة دبي

NORWICH UNION PAYOUTS- UP YET AGAIN!



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Norwich Union's investment skills are proven yet again. The payout from a 25-year with-profits endowment policy maturing in January 1987 rises from £43,594 to £48,198 – that's a huge 10.5%. The payout from a 15-year policy is up by 10.3%, £17,383 as against £15,750, last year, while even on a ten-year term, the payout is up from £7,922 to £8,431 – a 6.4% increase (all examples refer to a £30 per month policy taken out by a man age 29).

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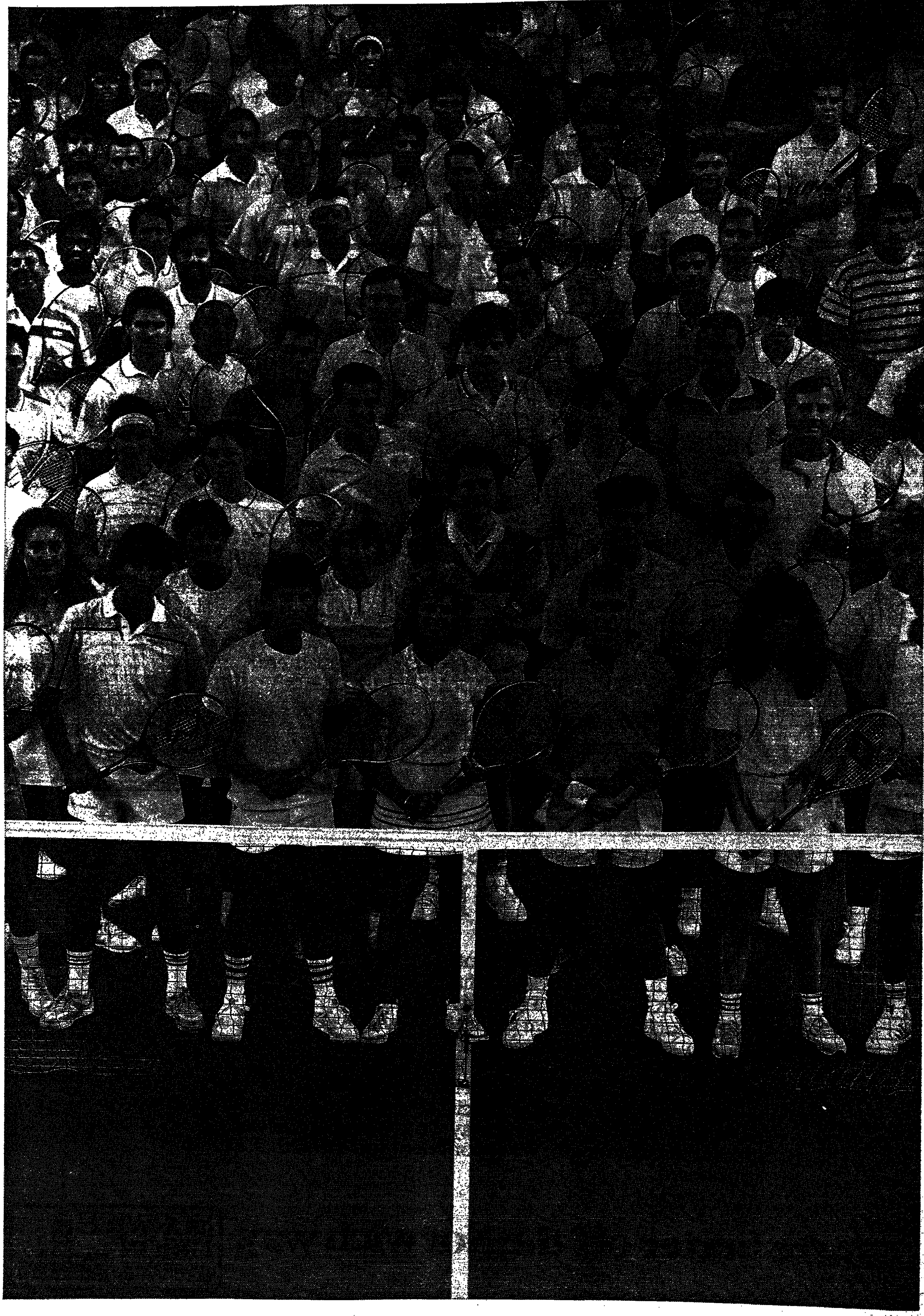

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Olympus Sport.

Not only are they an acknowledged authority on racquets, but they sell more than probably anyone else in the world.

Well over 120,000 tennis, squash and badminton racquets of all types pass hands in Olympus Sport stores every year.

It's typical of the energy that Olympus Sport put into the whole game of sports retailing.

Since joining the Sears Group in 1978 their aim has been to win that game. The strategy was simple: identify the market (young, fashionable, active) and go for it.

The result is a national chain of highly exciting stores that have revolutionised the selling of sportswear, shoes and equipment.

The stores are creative and innovative. (Olympus pioneered the use of video walls.) The goods are displayed in imaginative ways. The staff are young, lively and knowledgeable.

Olympus Sport has been a runaway success. They are now the country's largest specialist sports retailer.

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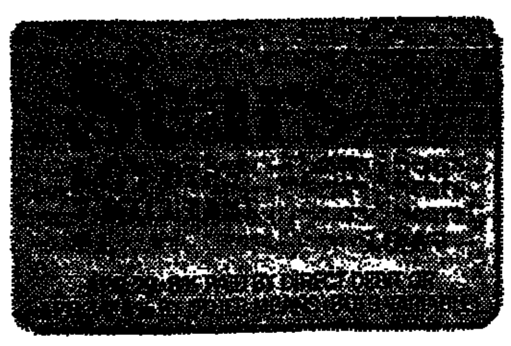
If you would like one, send for an application form and written details to: Sears Financial Services, Dept. MT, Freepost, London W2 4BR.



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UK NEWS

Streamlined procedures due for planning disputes

BY PAUL CHEESERIGHT

THE GOVERNMENT yesterday introduced measures to streamline the lengthy system of appeals and public inquiries into town and country planning issues.

The changes "will ease the burden on all those involved in disputed planning cases while still ensuring that the interests of conservation remain fully protected," claimed Mr William Waldegrave, the Minister for the Environment, in the House of Commons.

He was giving a written answer to a question from Sir Hugh Rossi, the Conservative chairman of the Commons select committee on the environment, and presenting the Government's response to a committee report in the form of a White Paper.*

This White Paper (policy document) is the latest in a series of Government steps to make the planning system, more amenable to economic development. It will be followed early next year by steps to make more flexible the Use Classes Order, which specifies the nature of developments that can take place on particular sites.

The latest moves concentrate on the appeals and inquiry procedures designed to handle disputes between developers and local authorities over planning applications and developments of national importance, such as the siting of a new motorway.

They involve setting timetables for the hearing of appeals and inquiries, an increase in the number of inspectors carrying them out, the introduction of more aids for inspectors, such as word processors, and an undertaking that the Government will give clearer policy advice to guide planners and developers.

The effect, according to the Whiter Paper, should be to reduce the median time for handling appeals and inquiries to 17 weeks by 1989, from 30 weeks in 1985. By comparison, the inquiry into the siting of a nuclear power station at Sizewell in south-east England took 340 working days.

Both planning authorities and developers are to be encouraged to use the appeals procedure only as a last resort by the threat to award costs against them when there are "unreasonable refusals of planning permission or frivolous appeals."

Local authority planners have frequently criticised central government for clogging the planning system by being too preoccupied with details. In the White Paper, the Government said its policy "is to simplify the planning system and improve its efficiency. It fully accepts that it should put its own house in order as a key element in that process."

* *Planning: Appeals, Call-In and Major Public Inquiries – the Government's response to the fifth report from the environment committee, session 1985–86; Cm 43; HMSO, £5.*

Delays 'cost exporters £100m yearly'

By Peter Montagnon

DELAYS in payment collection by exporters are costing UK industry £100m a year in unnecessary interest charges, according to a recent survey by Barclays Bank and Sitpro, the semi-official Simplification of International Trade Procedures Board.

The study covers transfer times taken for payments to reach exporters from their customers in the UK's 10 largest export markets. It does not include the cost of repatriating funds from markets such as Zambia where acknowledged foreign exchange problems exist.

Even in the main export markets "delays often arise because exporters and buyers have not made clear or adequate arrangements for the transfer of money. The result is that UK companies are bearing significant and avoidable additional costs," Mr Malcolm Stephens, Barclays Export Finance Director, said.

Cash By Express, Sitpro, Almack House, 26-28 King Street, London SW1Y 6QW, £7.

Limit on Greek cement

BY MAURICE SAMUELSON

STRICT limits on Greek cement imports into Britain are to be introduced after lobbying in Brussels by the British Government which culminated in a European Commission order to phase out controversial subsidies to Greek cement manufacturers.

The limits are so low that they should dispel the anxieties about the threat of job losses voiced by UK cement manufacturers, as well as the coal industry for which they are a major customer.

Under a bilateral agreement to be concluded this week between Britain and Greece, Greek imports will be initially held at 2.75 per cent of the UK market, peaking at 3 per cent by 1989.

Imports would thus be kept to about 500,000 tonnes a year out of a UK market of some 13m tonnes.

Britain can now police these quotas under a decision of the commission, signed on Tuesday, which allows for close scrutiny of the level of subsidies the Greek cement manufacturers receive from their Government.

The commission told Greece that if the subsidies were not kept within the agreed levels over the next four years, it would invoke its power to outlaw them.

Curbs on pyramid selling

By David Churchill

TOUGHER legislation to curb pyramid selling in the UK is being planned by the Government following a wave of new fraudulent pyramid-selling schemes in recent years.

Pyramid selling involves companies persuading individuals to buy goods or services from them and then selling them to the general public. This differs from normal wholesaling in that the company selling the goods or services regards the middleman as its market rather than the end consumer.

Many invest their savings in such schemes and then have difficulty in recovering their investment.

Such pyramid-selling schemes first appeared in the UK in the late 1960s. The worst abuses were banned by laws passed in 1973.

However, the Department of Trade said yesterday that, since this legislation was brought in, "a new wave of schemes has appeared whose methods suggest the need for new controls."

In particular, the new schemes concentrate on encouraging sales to middlemen. "Participants are shown that they can "earn" good money if they bring in new recruits and, most, important, if those recruits themselves buy quantities of goods from the promotor or wholesale distributor," the department says in a consultative document published yesterday.

The department's proposals are aimed at restricting the amounts of money that promoters of pyramid schemes can obtain from participants.

Laws would ban the soliciting or taking of payments for goods unless these were required for display or demonstration or to satisfy orders previously received from consumers.

The Direct Selling Association said last night that the Government's proposals "are based more on preventing participants making a risky investment rather than providing him with the recourse to remedial action."

It would have preferred to see an approach based on defining and then outlawing pyramid-selling schemes which the Government considered unlawful.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY—Indices of industrial production, manufacturing output (1980=100); engineering orders (1980=100); retail sales volume (1980=100); retail sales value (1980=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
1985							
2nd qtr.	109.1	104.5	109	114.9	141.4	3,174	161.7
3rd qtr.	108.3	103.9	104	116.1	145.2	3,124	164.4
4th qtr.	108.4	103.6	105	116.7	177.7	3,122	168.2
1986							
1st qtr.	109.4	102.8	105	118.2	145.4	3,171	166.5
2nd qtr.	108.9	103.5	98	120.0	152.7	3,208	175.6
3rd qtr.	110.5	104.6		122.1	157.4	3,212	200.2
April	110.8	104.1	94	119.3	152.1	3,200	170.2
May	108.5	103.1	101	118.5	149.8	3,205	172.1
June	107.6	103.4	99	121.7	155.4	3,228	184.4
July	109.9	104.5	102	120.9	158.2	3,223	193.2
August	110.6	104.1	104	122.0	155.2	3,219	201.1
September	110.9	105.3		123.2	158.7	3,193	206.4
October	110.0	105.6		123.2	164.7	3,168	212.8
November				126.1			

OUTPUT—By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1980=100); housing starts (000s, monthly average).

	Cnsmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1985							
2nd qtr.	103.3	105.2	113.8	105.7	117.7	102.0	18.2
3rd qtr.	104.3	102.5	113.1	103.6	116.2	103.2	17.3
4th qtr.	103.7	102.7	113.5	103.2	114.0	102.4	15.6
1986							
1st qtr.	103.1	102.5	115.5	102.1	111.3	103.1	14.2
2nd qtr.	104.2	100.5	114.9	102.0	110.9	102.3	19.8
3rd qtr.	105.1	101.8	117.0	103.5	107.7	102.4	19.6
April	104.9	101.1	117.9	103.0	108.0	104.0	18.7
May	103.8	100.4	114.2	102.0	111.0	100.0	19.2
June	104.2	100.9	112.7	101.0	113.0	102.0	21.5
July	104.8	101.7	116.1	103.0	108.0	100.0	20.8
August	104.8	101.5	117.6	103.0	106.0	104.0	16.6
September	105.7	102.3	117.3	105.0	109.0	103.0	19.7
October	105.8	103.3	115.0	105.0	111.0	102.0	19.5

EXTERNAL TRADE—Indices of export and import volume (1980=100); viable balance; current balance (£m); oil balance (£m); terms of trade (1980=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn*
1985							
2nd qtr.	120.5	124.8	−124	+1,587	+2,411	97.8	14.32
3rd qtr.	116.3	124.1	−440	+1,447	+1,900	100.2	14.18
4th qtr.	118.9	127.9	−292	+612	+1,893	101.6	15.54
1986							
1st qtr.	116.9	125.7	−1,437	+619	+1,929	101.0	18.75
2nd qtr.	121.8	128.6	−1,579	+379	+750	102.5	19.29
3rd qtr.	123.3	139.1	−3,034	−634	+688	103.3	22.43
April	122.6	123.7	−268	+385	+268	101.8	18.99
May	121.1	131.6	−681	− 29	+215	102.1	19.17
June	121.6	130.5	−630	+ 23	+267	103.7	19.20
July	126.3	134.9	−636	+164	+240	103.3	19.06
August	117.0	142.9	−1,514	−714	+180	104.0	18.93
September	126.5	139.5	−885	− 85	+268	102.5	22.43
October	125.3	140.6	−835	+ 65	+184	102.2	21.99
November							22.01

FINANCIAL—Money supply M0, M1 and sterling M3, bank advances in sterling to the private sector (three months' growth at annual rate); building societies' net inflow; HP†, new credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank advncs. %	BS inflow £m	HP lending† £m	Base rate %
1985							
3rd qtr.	2.6	20.5	15.5	17.5	1,771	3,374	11.50
4th qtr.	2.9	17.0	12.9	17.7	2,298	3,431	11.50
1986							
1st qtr.	4.1	21.4	19.3	12.2	2,220	7,385	11.50
2nd qtr.	3.1	24.2	26.6	26.7	1,433	7,658	10.00
3rd qtr.	5.9	30.7	15.6	16.9	108	8,304	10.00
April	1.2	20.1	24.3	26.5	756	2,743	11.50
May	4.3	24.7	34.6	27.9	500	2,372	10.00
June	3.9	27.8	21.3	25.0	177	2,543	10.00
July	5.4	34.6	20.5	15.9	387	2,719	10.00
August	5.7	21.4	7.9	17.8	452	2,678	10.00
September	6.6	36.5	18.6	16.5	−671	2,907	10.00
October	6.3	21.1	15.4		1,951	2,796	11.00
November					160		11.00

INFLATION—Indices of earnings (Jan 1980=100); basic materials and fuels, wholesale prices of manufactured products (1980=100); retail prices and food prices (Jan 1974=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100).

	Earn-ings*	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
1985							
3rd qtr.	174.4	133.1	140.2	376.3	335.5	1,706	82.2
4th qtr.	176.9	132.6	141.4	378.1	337.4	1,771	79.8
1986							
1st qtr.	179.1	132.4	143.4	380.8	343.3	1,813	75.1
2nd qtr.	184.0	125.8	145.7	385.7	349.5	1,453	76.1
3rd qtr.	187.4	120.8	146.3	386.1	348.1	1,488	71.9
April	184.0	126.9	145.4	385.3	347.4	1,786	76.2
May	182.3	126.4	145.9	386.0	349.8	1,763	76.1
June	185.7	124.2	145.8	385.8	351.4	1,453	75.9
July	187.9	119.8	145.9	384.7	347.4	1,460	74.0
August	187.2	120.3	146.3	385.9	348.6	1,461	71.4
September	187.0	122.4	146.7	387.8	348.3	1,544	70.4
October		124.2	147.0	388.4	347.6	1,600	67.8
November		127.0	147.3	391.7	347.5	1,617	68.5

* Not seasonally adjusted.

† From January 1986 includes amounts outstanding on credit cards.

Vickers to join Brown & Root in new venture

BY MAURICE SAMUELSON

TWO of the largest British-based engineering companies, the US-owned Brown & Root (UK) and Vickers, are to join forces in the face of growing international competition for offshore and land-based projects.

The new company, Brown & Root Vickers, will combine the former company's Project Engineering Management division, which employs some 1,400 engineers and technicians, with the latter's project contracting arm Vickers Design and Projects, which employs about 380 engineers.

Mr Alick Buchanan-Smith, Minister of State for Oil, welcomed the move as "another important step towards developing the UK's North Sea technology."

It follows similar link-ups between British-owned companies and some of the biggest US offshore engineering groups. They include a partnership between Foster Wheeler and Ferranti and the UK's Wood Group, and a joint venture of Bechtel Corporation of the US and the John Laing Group.

Brown & Root itself recently formed a joint venture with Saipem UK, the pipe-laying arm of Ente Nazionale Idrocarburi, (ENI) Italy's state-owned energy concern.

The new company, owned 70 per cent by Brown & Root and 30 per cent by Vickers, will initially have sales of around £100m a year. Both partners said it would have "a strong international presence and an established customer base encompassing a broad spectrum of industry."

The groups are also pooling their research and development activities in a second joint company, Brown & Root Vickers Technology, owned 51 per cent by Vickers and 49 per cent by Brown & Root.

The merger will give Vickers a platform for worldwide expansion and Brown & Root will gain access to Vickers' onshore interests, including defence work.

Vickers' Design and Projects Division is Vickers' international contracting and project management arm and one of the group's six main businesses. Based at Eastleigh on the edge of the New Forest, it evolved some 20 years ago from Vickers Supermarine, which designed the Spitfire fighter aircraft. It has a forward order book approaching £100m ($143m).

Brown & Root, with offices in London, Aberdeen and Norway, is owned by the US Halliburton Group and has operated in the UK for 27 years, mainly in offshore projects. Much of its marketing effort is being transferred to Britain from its headquarters in Houston, Texas.

As a result of the North Sea oil industry recession, its project engineering management division has shed 1,000 jobs in the past year. Mr Dick Morris, chairman of Brown & Root (UK), said the "painful and expensive" contraction was being carried out "in order to ensure that we are still there when the upturn in the North Sea starts again."

The two companies already have several years of experience of collaboration, including the innovative Tension Leg Platform for Conoco's North Sea Hutton Field. Vickers was a member of the Brown & Root-led consortium bidding for the private operation of the Devonport naval dockyard, although its 25 per cent stake in the consortium will now be taken up by the Weir Group.

Mr Buchanan-Smith said he was pleased the companies had come together "to add further muscle to the UK's offshore technology capability." It showed "demonstrably that my policy of encouraging joint ventures to develop our North Sea technology is working well."

Lloyds Bank sued in export fraud case

BY CHRISTIAN TYLER

LLOYDS BANK is being sued for more than £3m following the conviction of two company directors for fraud against the bank and the Government's Export Credits Guarantee Department (ECGD).

The liquidator of the now bankrupt Lumiere group of leisure companies, Mr Paul Finn, yesterday issued a writ in an attempt to recover the losses sustained by the ECGD which had guaranteed the Lincoln-based companies' overdraft for exports that never took place.

Last night the ECGD said it was also considering what action to take, and that litigation could not be ruled out. The agency could seek redress from the company directors, the bank or both.

On Tuesday Mrs Julia Stapleton, wife of the companies' founder, and Mr Richard Coles, a company consultant from Derbyshire, were given suspended prison sentences for their part in a deception on Lloyds Bank and the government agency.

Mrs Stapleton's husband, Mr Robert Stapleton, is living in Spain. He has always claimed that he was encouraged to make fictitious claims and exposed the fact that the ECGD was at one stage giving him access to subsidised credit in breach of EEC rules.

The ECGD has since admitted to the EEC Commission that cheap finance for an export project in Denmark was being routed through Switzerland. But this so-called "doglegging" had been stopped.

Mr Stapleton's company was selling sports centres and portable squash courts. It used the ECGD's comprehensive bank guarantee scheme to secure overdrafts of up to $2m for five years.

This ECGD facility is being phased out in October next year – in spite of protests from some exporters – because of cumulative losses of $80m, a fall in the number of policyholders and the wider availability of short-term export finance. The ECGD said the Government's decision was not the result of the Stapleton case.

The agency, which has lost £3.5m in this affair, said it was planning to resume negotiations with the commercial banks in order to clarify the documentation used for the guarantee scheme.

This and other credit frauds resulted in the creation at the beginning of this year of a fraud investigation unit at the ECGD. The agency said yesterday it was also tightening up on its procedures for examining the track records of individual exporting companies and for scrutiny of claims made against it.

Cambrian names new chairman

By David Lascelles

MR David Hobson, the former senior partner of Coopers and Lybrand, the accountancy firm, has taken over the chairmanship of Cambrian and General Securities, the investment company once controlled by Mr Ivan Boesky, the disgraced US arbitrageur.

Mr Hobson was invited in by S. G. Warburg, the merchant bank, which is advising Cambrian in the wake of the crisis caused by Mr Boesky's insider trading in New York which led to his resignation. He attended his first board meeting yesterday, at which he was appointed chairman.

He said yesterday that Cambrian wanted an independent outsider as chairman while the investigations into the company's activities and finances were carried out. The company's shares have been suspended since mid-November when the affair broke, and Peat Marwick, the accountants, are preparing a report.

Mr Hobson said it was too early to say how the investigations were proceeding or when their results were likely to be known. However, Cambrian will be seeking an adjournment of its annual meeting scheduled for December 30.

Personal pensions must provide same rates for men and women

BY ERIC SHORT

LIFE companies offering the new personal pensions must provide the same annuity rates to men and women of the same age for the same accumulated cash sum secured by the minimum contributions. This is likely to mean lower rates for men and higher for women.

This requirement, which overturns two centuries of actuarial practice in the UK, is set out in the second set of draft regulations made under the Social Security Act 1986. It has been vigorously opposed by the actuarial profession and life companies since it was first mooted more than two years ago.

However, life companies will still be free to quote differential annuity rates for men and women for benefit secured by additional contributions above the minimum.

The same conditions will apply to the benefits secured by minimum contributions under company money purchase schemes that are contracted out of the State Earnings-Related Pension Scheme (Serps).

Under the Social Security Act, employees will be able from April 1988 to opt out of their employer's pension scheme and Serps and make their own pension arrangements through a personal pension.

Under these schemes the contributions paid by the employee and his or her employer are accumulated to retirement and the cash sum used to buy a pension from a life company.

Life company actuaries have always quoted lower annuity rates for women compared with men to reflect the longer life expectancy of women.

However, with Serps, men and women get the same pension for the same contributions. Since the minimum contribution, known as "protected rights," replaces Serps, the Government has argued that the pension secured by the minimum contribution must also be on a unisex basis.

The extent of losses and gains between men and women will be limited because these protected rights annuities must also be on a "unistatus" basis – that is, that they must also provide a 50 per cent pension to the spouse on the death of the employee

Bank challenged over commission

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE "custom and practice" that banks do not disclose commission they earn by arranging mortgage-linked life assurance for their customers is to be challenged in a test case in the High Court.

Mr Clive Wolman, a Financial Times journalist, has issued a writ against National Westminster Bank claiming to be paid the commission the bank earned by arranging an endowment mortgage for him with the Norwich Union.

The case could have far-reaching implications for banks and building societies, which earn an estimated £250m a year from endowment policies.

It could also call into question the adequacy of the rules proposed by the Securities and Investment Board on disclosure of commissions. Under the rules only the fact that commission has been earned under an agreed sale, but not the amount of such commission, would have to be disclosed.

Mr Wolman claims that the bank acted as his agent in arranging the mortgage – an assertion the bank denies. He says that the bank received a substantial commission – a secret profit – from Norwich Union

Post Office plans to hire 28,000 workers as traffic increases

BY DAVID THOMAS

THE Post Office is planning to hire up to 28,000 extra workers in the next five years, a move in sharp contrast to most of the public sector and much of private industry, which are continuing to shed jobs.

The Post Office is optimistic about jobs because of a rapid growth in mail traffic and because it is planning to create employment by cutting overtime.

The corporation disclosed these forecast yesterday as it reported sharply decreased profits for the half-year ending in September.

Sir Ron Dearing, chairman, also disclosed that little interest had been shown by private companies in the Government's instruction issued in July to the Post Office to consider using private capital in joint ventures.

Sir Ron has talked to some merchant banks but without result. No private companies have approached the Post Office on their own initiative.

The Post Office is not opposed to using private capital for joint ventures. The idea might be relevant, for example, to its plans for counter automation.

A growth in mail volumes of more than 6 per cent led to 2,642 more full-time workers and 2,474 part-timers in the six months to the end of November, giving an increase in full-time equivalent jobs of 3,861.

The Post Office is now planning on the basis that mail volumes will increase by 5 per cent a year in the next five years, which it regards as modest compared with recent trends.

Direct mail advertising and commercial mail linked, for example, to credit cards have been increasing particularly stongly.

This will allow it to take on up to another 20,000 workers, half of whom will be full-time, the rest part-time.

It also expects to create 8,000 jobs, half full-time, by cutting overtime working. Last year, 55m worker hours, 15 per cent of the total, were accounted for by overtime.

Sir Ron stressed that the Post Office's plans depended on two assumptions within the control of Government: it would be allowed to invest enough to cope with its expansion plans; and it could keep its price increases below inflation for the next five years, as it wished.

Post Office profits fell to £7m in the half-year from £59m last year, before interest and taxation, on turnover up 4.7 per cent at £1.63bn.

UK NEWS

Over 6m Britons 'unhappy with some aspect of insurance'

BY NICK BUNKER

MORE than 6m Britons are unhappy with some aspect of insurance or the way it is sold, according to research by the Office of Fair Trading.*

But an estimated 76 per cent of Britons have never heard of the Insurance Ombudsman or any of the industry's watchdog bodies, the OFT said yesterday.

The single biggest source of dissatisfaction is motor insurance, the OFT found. Projecting from the survey, an estimated 1.5m people are likely to complain about issues such as high premium rates or delays in paying out claims.

But an estimated 9 per cent of adults – about 4m people – have also had difficulties with life assurance salesmen or selling methods. The most frequent complaint is over salesmen "invading privacy" by calling uninvited or at awkward times.

The OFT's findings were based on a survey last year of a sample of 5,000 Britons aged 16 or over. It was carried out for the OFT by MAS Survey Research, which took names at random from the electoral roll.

A principal objective was to find out how much difficulty people had experienced with selling methods and staff, the OFT said.

Researchers found that about 14 per cent of those interviewed reported some problems with insurance over the past two years. But the OFT said it was only fair to look at those whose dissatisfaction was "with the end product, rather than with sales approaches, many of which were probably fruitless."

Between 3 and 8 per cent of those questioned complained about the end product, which was "not particularly high" for a service industry, the OFT said.

Eight per cent of motor insurance policyholders were dissatisfied with the end product, closely followed by 6 per cent of people with unit linked life assurance.

One of the most striking findings was the "extremely low" consumer awareness of the industry's watchdog bodies. Only 14 per cent had ever heard of the Insurance Ombudsman, the OFT said.

● Scarborough Building Society, Britain's second-oldest society, will launch a brand new range of insurance services at the beginning of next month, including its own motor insurance plan.

Under the 1986 Building Societies Act, societies have from January 1 1987 very much wider powers of operation, including that of offering a full insurance broking and intermediary service. Until now, building societies could only provide insurance services that were related to house buying such as house insurance or life contracts to repay mortgages.

But while other societies have highlighted their plans for lending, investment or acquiring estate agents, Scarborough Building Society is the first to announce its insurance intermediary activities.

**The Selling of Insurance Policies. Free, from the Office of Fair Trading, Rm 517, Chancery House, 53 Chancery Lane, London WC2.*

Eight new faces for City industry inquiry

BY ANDREW TAYLOR

EIGHT new members have been appointed to the Confederation of British Industry's (CBI) task force set up to investigate ways of improving relations between City of London institutions and industry.

They include Sir Ralph Halpern, chief executive of Burton Group, the retailers, Sir John Greenborough, chairman of Newarthill, the construction group, and deputy chairman of Lloyds Bank, and Lord Remnant chairman of Touche Remnant, the fund management group.

The task force, which will operate initially for one year, was set up following criticism by some delegates at last month's CBI annual conference that the City's preoccupation with short-term financial gains was damaging the long-term interests of industry and the economy.

The move was prompted partly by the recent spate of contested takeovers and mergers which have involved a number of companies represented on the task force.

Earlier this week it was revealed that Hanson trust, which has instigated a number of the takeover bids was also joining the task force. It will be chaired by Mr David Nickson, CBI president and chairman of Scottish and Newcastle Breweries.

Representatives of 25 companies and financial institutions have now joined the task force, which is expected to hold its first meeting early in the new year.

The inclusion of companies such as Burtons and Hanson Trust among industry's representatives is regarded as important because as recent instigators of takeovers they may provide a different perspective from companies such as Allied Lyons and Plessey, which have been on the receiving end of hostile bids.

The task force has been asked to review the criteria by which financial investors assess the performance of industrial companies in which they invest and to recommend ways of improving the relationship between companies and the City.

The other new members of the task force are Mr Tim H. Norman, chairman and managing director of Spafax holdings, Mr Daniel Hodson, group finance director of Unigate, Mr R. T. S. Macpherson, chairman of the National Council and the Association of British Chambers of Commerce, Mr Paul Marsh, professor of management and finance at the London Business School, and Mr Paul Nicholson, chairman and managing director of Vaux Group.

UK NEWS

Councils look at plan for annual working hours

BY DAVID BRINDLE

LOCAL authorities in England and Wales are considering plans to move 1m council manual workers on to an annualised hours system, scrapping the conventional working week.

The far-reaching proposals, outlined in a consultation document sent to all councils, would mean the end of premium pay for overtime and weekend duty and would allow introduction of seasonal variation in working time.

The document tells local authorities that the trade unions would "seek to exact a very high price" for the changes but that the benefits to managements could be considerable.

Annualised hours systems have previously made little impact outside continuous process industries such as paper-making. Advantages in terms of worker flexibility have been thought to be particular to round-the-clock shift-working.

However, the document prepared by the employers' side of the national joint council for local authority manual workers says the existing five-day, 39-hour working week is too rigid in view of the growth of seven-day leisure and residential social services.

It says: "The costs to these services of paying premium rates is very high, and there is little or no scope within the agreement to minimise these costs other than by employing staff exclusively for weekend work – in itself not necessarily a desirable practice."

The document proposes a long-term move to a working year calculated on present terms and conditions at 1,794 hours for manual workers with less than five years' experience and 1,755 for those with more. Within these totals, councils would be able to fix working patterns to suit the staffing needs of their services.

No overtime pay would be earned unless the annual hours total had been passed, no extra payments would be made for Saturday or Sunday working and there would be an end to all regulations governing when summer holidays should be taken.

As a result, the document says, it would be possible for outdoor employees such as parks and road maintenance staff to work only the six or seven hours of daylight each day during winter months and "a great deal more than 39 hours" each week in the summer.

The proposals are likely to impress government ministers at a time when the alleged inflexibility of central pay and conditions bargaining in local government is under fire. The unions have reacted sceptically although not dismissively.

Estate agents criticised

BY ERIC SHORT

THE PUBLIC have a poor opinion of estate agents and the lack of service provided when people buy or sell houses.

This was one of the major findings in a survey* published by Janet Levin Associates, a specialist financial research consultancy firm.

The survey sought people's views in two contrasting areas of the country – Surrey in the south and Yorkshire in the north

In both areas, people accused estate agents of a lack of professionalism. The survey contains such quotes as: "He could only have been 16 or 17 and he was valuing my pride and joy," and "It's a tiring business house hunting, and when you've been sent on a wild goose chase by some 16-year-old idiot . . ."

Estate agents were also accused of rarely being seen to be working in their clients' interests, of offering a lack of services connected with house buying and of wasting clients' time.

In contrast, the services offered by insurance intermediaries connected with house buying were praised in the survey.

The survey found that the public are still well disposed towards building societies.

The House Purchase Decision from Janet Levin Associates, 29 Glebe Road, London, SW13 ODZ, price £950.

Christmas hardship of poor highlighted

By Andrew Taylor

THE ANGER, frustration and despair of the poor, the unemployed and single parents at Christmas are highlighted in a series of letters and interviews published today by the Child Poverty Action Group.

The 22-page report, "Christmas on the Breadline," says that many low-income families will meet the cost of Christmas only by getting further into debt, by buying goods they cannot afford from catalogues and by pawning jewellery and other items. A tiny minority will shoplift to avoid disappointing their families.

The report contrasts the heavy spending by those in work – as the nation prepares to spend £16bn in the last few weeks before Christmas – with the plight of the poor. They will be forced to buy second-hand toys, often damaged, or pass off necessities, such as clothes, as presents for their children.

One mother of three from Darlington, north-east England, wrote: "I've sold just about everything we owned in the past, to buy them clothes."

"When the TV adverts for toys come on, I feel like screaming. How the hell can people on low incomes and existing on social security manage to buy one thing, let alone three or four," says one single mother in Manchester, north-west England.

The report says spending by an average household this Christmas will be between £250 and £375 while average expenditure on presents for a child aged 8 to 14 will be around £100.

By contrast, some poor families are telling their children that Father Christmas has run out of toys, or that the television has broken, so that they won't see advertisements for toys that parents cannot afford.

The report calls for supplementary benefits to be raised and says the Department of Health and Social Security should make greater efforts to ensure that those entitled to the payments are receiving their full benefit.

Christmas on the Breadline, CPAG, 1 Macklin St, London, WC2B 5NH.

Raymond Hughes looks at the Scandinavian Bank case

Ruling worries companies wanting to quit sterling

THE apparent clash of judicial opinion over the legality of UK-registered companies having non-sterling share capital is causing concern among companies anxious to move out of sterling to safeguard themselves against volatile exchange rates.

Only the company that broke the mould, Scandinavian Bank Group, can feel reasonably safe. It has been advised that the ruling that it can shift into a multi-currency basket will stand, whatever may happen in the future.

Once a High Court order has been approved and lodged with the court, it is inviolable. So the worst that could happen to Scandinavian Bank would be that it might stand alone as an anomaly or as evidence of a judicial aberration.

For Merrill Lynch International Bank and the five English subsidiaries of Manufacturers Hanover, the plans of which to change from a sterling to a dollar capital base have been adjourned by the court until January, the future is less clear-cut.

Mr Justice Walton, voicing what might be termed the traditional opinion, said that he had always taken the view that non-sterling share capital was impermissible in an English company. The judgment of Mr Justice Harman in the Scandinavian Bank case would, he said, need very careful study.

It is worth noting that Harman is the only judge to have ruled on the issue. It was he who, last January, approved a plan by Chase Manhattan Ltd, an English subsidiary of the Chase Manhattan banking group, to change its capital from sterling into dollars.

Just as there is an apparent judicial difference of view, so there is no consensus among experienced company lawyers. Some agree with Harman, some with Walton; others say that a single foreign currency capital is permissible, but a multi-currency basket is not.

The problem may, in fact, be blown away on an administrative sidewind. The Merrill Lynch and Manufacturers Hanover cases came before Mr Justice Walton only because he was helping out the nominated companies judge. He did not expressly retain the cases to himself, which would mean that in January they will go before a different judge. That judge may subscribe to the Harman view – as, of course, might Mr Justice Walton when he has studied the Harman judgment.

But if the Merrill Lynch and Manufacturers Hanover proposals are ruled out of court, one or other is likely to go to the Court of Appeal.

Were the appeal judges to rule against non-sterling capital, there would almost certainly be pressure from the City – suddenly, because of Harman, finding itself with an unexpected extra attractiveness as an international financial centre – for a change in the law.

It all seems to hang on whether Harman got it right.

At the heart of the case was section 2(5)(a) of the 1985 Companies Act, which provides that a company's memorandum must state "the amount of the share capital . . . and the division of the share capital into shares of a fixed amount."

Mr Justice Harman held that "amount" meant monetary amount. The first question then was whether such monetary amount had to be in English currency.

Mr Oliver Weaver, QC, who had been nominated by the Attorney General to assist the judge with an independent view of the law, had referred to section 118 of the act which required a public limited company to have an authorised minimum capital of £50,000. He had also drawn attention to a European Commission directive which pointed to the conclusion that the section 118 requirement could only be satisfied in pound terms.

The judge said that the reference in the directive to "national currency" seemed to require member states to impose upon public companies incorporated within them a minimum share capital in their own currency.

"I do not think, however, that this requirement prevents, or militates against, the possibility that a company can have a share capital expressed in more than one currency, so long, in the case of a public company, as at least £50,000 of its capital is in sterling," the judge said.

Mr Weaver's main submission had been, not that an English company could not have its share capital measured by a foreign currency and, consequently, shares fixed in amount by reference to a foreign currency but that, unless the currency in which the share capital was measured was only one currency and the accounts were drawn in that same currency, the amount of each share, measured by any other currency, could not be fixed.

No creditor, Mr Weaver had said, could look to the capital of a company with a multi-currency share capital and know what was his security.

The judge said that no one doubted that accounts must be drawn in one currency. But the amount of the share capital and the fixed amount of each share were not altered by the figures appearing in successive annual accounts. Those figures were a translation, which was necessary for the purposes of comparison but did not alter or affect the true value of the underlying assets or liabilities.

The judge rejected a contention that a share had a value as a fixed sum in English pounds to which a shareholder was entitled or to which a creditor could look. There could, he said, be no doubt that directors could receive share subscriptions in one foreign currency and at once convert them into another.

"Amount," the judge said, did not have to be a single total amount. The amount of share capital was stated in the memorandum if, on reading the relevant clause, one found that the amount was X million pounds sterling, Y million US dollars and Z million Swiss francs. The memorandum did not have to state a single figure or a total of the share capital.

A share was "a fixed amount" if it was stated in the memorandum in monetary form. The fixed amount could not be stated in two different currencies, but it might be stated in different currencies for different shares. Each share was, and remained, of "a fixed amount." To hold otherwise would be to confuse "value" with "amount."

INTERNATIONAL APPOINTMENTS

Senior moves at Texaco

A STRING of senior management appointments has been made by Texaco, the US integrated oil company, in preparation for the retirement at the end of the year of Mr John K. McKinley, 66, as chairman and chief executive.

Among the moves is the reassignment of Mr Roland M. Routhier, 60, currently president of Texaco USA, and Mr Elton G. Yates, 51, president of Texaco Latin America/West Africa, to its headquarters in White Plains, N.Y.

It was announced recently that with the retirement of Mr McKinley, Mr James W. Kinnear, 58, was to be promoted from vice chairman to president and chief executive, with Mr Alfred C. DeCrane, Jr, 55, moving from the post of president to that of chairman.

Mr Routhier is to be succeeded at Texaco USA by Mr James L. Dunlap, 49, president of Texaco Canada, a post to be assumed by Mr Peter I. Bijur, 44.

Mr C. Robert Black, 51, takes over as president of Texaco Latin America/West Africa, and is in turn succeeded as president of Texaco Middle East/Far East—which is responsible for company interests in Indonesia, Saudi Arabia and other parts of the Middle East and Pacific Basin—by Mr Earl L. Johnson, 56.

Mr Routhier will continue as a Texaco Canada director and will have oversight responsibility for Texaco's majority shareholding in the Canadian affiliate as well as for Texaco Latin America/West Africa and worldwide aviation and marine sales.

Mr Yates will have oversight responsibility for the Middle East/Far East division and for Texaco Oil Trading and Supply Company, the offshoot which handles worldwide crude oil and product purchases and sales. He will also be a member of the executive exploration and producing committee.

Mr Yates will continue to serve as a director of Caltex Petroleum Corporation, the Texaco joint venture with Chevron Corporation, and of the Arabian American Oil Company, which is owned by Texaco, Chevron, Exxon Corporation and Mobil Corporation and handles production of oil and gas in Saudi Arabia.

General Motors reorganisation

GENERAL MOTORS Corporation, the Detroit-based motor vehicles manufacturer, the largest in the US, has pared its executive ranks further with the reorganisation of its North American operations to group Mexico with the US and Canada.

Two corporate vice presidents are to take early retirement on January 1—Mr John McCormick, 63, who is in charge of Latin American and South African operations, and Mr John Beck, 60, who is in charge of international export sales. No replacements are to be made.

It was announced earlier this month that Mr Howard Kehrl, corporate vice chairman, was to retire from his post at the age of 63, and would not be replaced. General Motors has announced plans to reduce its salaried workforce by 25 per cent by 1989, with a view to reducing overheads.

The company's GM de Mexico subsidiary has been taken under the wing of the Chevrolet-Pontiac-Canada car group, to form a single North American business organisation. GM de Mexico had been part of the company's overseas organisation.

● FORD MOTOR Company has announced plans to combine its tractor offshoot and its New Holland farm machinery offshoot into one, under the name Ford New Holland, in a move to expand in the industrial equipment and agriculture field.

* * *

UNISYS CORPORATION, the second largest US computer company formed earlier this year by the agreed merger of Burroughs and Sperry, has announced that Mr Gerald Probst, Sperry's former chairman, is retiring from the combined board. Mr Probst, 61, said at the time of the merger that he was planning to retire and his departure on January 9 is widely expected. Unisys also said that Mr Frank Carlucci, another director, is resigning as a result of his appointment as President Ronald Reagan's national security adviser.

Ex-central bank head in old post

By Tony Walker in Cairo

Mr Ali Negm: returning to Arab International Bank

MR ALI NEGM, former chairman of the Central Bank of Egypt (CBE), has been appointed deputy chairman of Arab International Bank, based in Cairo. Mr Negm who had been chairman of the CBE for two years, resigned last month, following the appointment of a new Egyptian Prime Minister

Arab International Bank is partly owned by the Egyptian and Libyan governments.

Mr Negm was deputy chairman of Arab International before relinquishing the post on his appointment as central bank chairman in 1984.

Hercules sets up top succession

HERCULES, the diversified Delaware concern with interests ranging from chemicals and allied products to aerospace and defence, to engineering, has appointed Mr David S. Hollingsworth, 58, to succeed Mr Alexander F. Giacco, 67, as chairman and chief executive on March 24, when Mr Giacco retires.

Mr Giacco is to be succeeded in a third office, that of president, by Mr Fred L. Buckner, who will also be chief operating officer.

Mr Arden B. Engebretsen, at the moment vice president and chief financial officer, will succeed Mr Hollingsworth as vice chairman, while retaining his financial post.

Mr Giacco leaves Hercules after 44 years with the company, and having been president and chief executive since 1977, chairman since 1980. The appointments now announced, he says, complete a "carefully orchestrated" management plan begun in 1983.

Mr Hollingsworth joined Hercules in 1948, and has been vice president since 1986. Mr Buckner's service with the company dates back to 1961, and Mr Engebretsen's to 1959.

Times Mirror president

TIMES MIRROR Company, the California-based publishing concern, has appointed Mr David Laventhol a director and president of the company, reports Reuter from Los Angeles.

Mr Laventhol was a Times Mirror vice president. He succeeds as president Mr Robert Erburu, who is to continue as chairman and chief executive.

* * *

Savin Corporation, the Connecticut marketer of office copy equipment, has announced the resignation of Mr Mel A. Mahler as president and chief operating officer to pursue outside investment - related opportunities, reports Reuter from Stamford.

Mr Mahler, who joined Savin in October 1985, is to continue as a director of the company.

Mr David C. Sadler, chairman and chief executive officer, is to resume the responsibilities of chief operating officer.

* * *

SYNTEX corporation, the American pharmaceuticals-based company, has elected Mr Paul E. Freiman president and chief operating officer, from January

Mr Freiman, 52, was formerly executive vice president. He succeeds Mr Albert Bowers, who remains chairman and chief executive.

* * *

AGA GAS INC, the US subsidiary of Aga AB, the Swedish industrial gas group, has elected Mr Ake Nyborg chairman, in succession to Mr Marcus Storch. Mr Nyborg is chief executive of Aga Gas. Mr Storch, a group president, remains on the board of the subsidiary.

Accountancy Appointments

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Accountancy Appointments

FISONS Group Headquarters

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KUWAIT

Opposition takes first steps to seek democracy again

By Michael Field

KUWAIT HAS suffered four very bad years. It has been frightened by the Gulf war close to its borders and it has been hit by a series of terrorist bombing, including an attempt on the life of its ruler, Sheikh Jaber Ahmed al Sabah.

In 1982 its unofficial stock exchange, the Souk al Manakh, crashed, and because the Government did not act promptly to resolve the problem, it led to a banking crisis. This has been exacerbated by the collapse of oil prices in the past 12 months.

Finally in July this year Sheikh Jaber dissolved Kuwait's National Assembly, which had been a source of pride to Kuwaitis, partly because it was the only parliament in the Arabian Peninsula and made them feel more mature than their neighbours in Saudi Arabia and the Gulf states.

The ruler's decision was accompanied by a further assertion of his family's control over the executive; now all major Government posts, bar the Finance Ministry, are in Sabah hands. There has also been a tightening of security. The Ministry of the Interior said recently that 27,000 expatriates had been deported in a year.

In recent weeks the parliamentary opposition has begun to react to the dissolution. A committee of members of all political factions, including the nationalists and both Sunni and Shia religious groups, has prepared a petition, asking the Ruler that the Assembly be restored.

If this does not bring about a change of heart the committee will organise a further, mass, petition, and then, possibly, demonstrations and token strikes. It streses that everything it does will be constitutional and that it will proceed slowly.

It thinks that a campaign of steady pressure, lasting two or three years if necessary, will be more effective than confrontation. The hope is that gradually Kuwaitis will decide that they miss democracy and will make their views known to the ruling family through conversations in the *diwania*, the council chambers or sitting rooms in which all important Kuwaitis receive their friends.

Kuwaitis are divided in their views on the last Assembly, elected in March 1985. Some, including those members of the establishment closest to the government, feel that it did not put forward constructive proposals but merely criticised the administration, raking over the causes of the state's financial crisis.

They claim that its members made long, emotional speeches only to gratify their self-esteem. They enjoyed embarrassing the ruling family, and they liked it that the press, much more radical than society as a whole, devoted enormous amounts of space to reporting what they said.

Sheikh Jaber: survived murder attempt

But other influential Kuwaitis admired the Assembly. People attended its debates and cheered, or booed, the most powerful speeches.

There are many sober, respectable Kuwaitis who argue that the Assembly was entirely justified in distrusting the Government and demanding that it question its ministers, given its sloth and incompetence in handling Manakh and the hundreds of millions of dollars of public money that were lent to save a few members of the ruling family from bankruptcy.

It was the passing of motions censuring five ministers that caused the Government to dissolve the Assembly. Two ministers were said to have been responsible for giving favourable treatment to members of the ruling family after the Manakh crisis. Another, the Minister of Communications, was accused of not having forced Sabahs to pay their telephone bills, which in some cases had been accumulating for a decade.

In response to the motions the entire Cabinet handed its resignation to the Prime Minister, and, rather than be without a Government, Sheikh Jaber dissolved the Assembly.

He may have been encouraged to do this by the Saudi Government, which had long been embarrassed by the undisciplined and raucous democrats on its northern border. When the Assembly was sitting, Saudi citizens used to ask friends to send them tape recordings of its debates.

At the same time Sheikh Jaber imposed rigorous censorship on the press. Before these measures the Government would occasionally sue a newspaper after an article had been published; now the Ministry of Information has censors in every newspaper to approve articles as they are written.

Ten years ago, when it dissolved the Assembly and imposed censorship, the Government announced that it would hold elections for a new Assembly in four years. On that occasion it kept its promise. This time it has said nothing about dates. The Assembly building is now being used to house the Cabinet's secretariat.

Because there is no Assembly, according to some Kuwaitis, the Government and civil service are now less accountable. "There will be more favours in the award of contracts and land purchases," an ex-minister and member of a big merchant family claimed recently. "We saw the same when there was no Assembly in the 1970s."

Nevertheless, the discussions in the *diwania*—the reception room in which the important Kuwaitis meet their friends, remain uninhibited. Anyone, in theory, can take a complaint to the Prime Minister or go to his *diwan* and give his views on whatever topic happens to be discussed.

But the system of *diwania* is not equivalent to a parliament. As a businessman and member of a major family put it recently: "Democracy is more than just being heard, it is having a body that can look into legislation in detail and directly transform the opinion of the people into laws. The *diwania* are only like tribal councils—the rulers listen and if they want to do what they hear they do it. If not, they forget it."

Even among those who are most critical of the last Assembly, it is difficult to find anybody who does not say that eventually he would like parliament back.

Also, it is argued, Kuwaiti democracy was important for the region as a whole—however much it annoyed the Saudi and Gulf state ruling families. Except in Kuwait, the system of government in the Arabian Peninsula has not altered since the discovery of oil, while society has been changing extremely fast. The bourgeois intelligensia, which grows every year as higher education spreads, wants to participate in government. Indeed, even people who are entirely loyal to their rulers often suggest that if the process of government does not change to match the social evolution, the oil states will become less stable.

These people admit that Kuwaiti democracy may have been chaotic, but at least with its parliament Kuwait was able to develop politically. All the Gulf rulers could see how events in their region affected popular opinion, as expressed by the deputies. And in watching Kuwait they had some opportunity of working out what might happen in their own countries if they were to introduce some form of democracy. Now this opportunity has gone and the Gulf's political evolution has been frozen.

CONTRACTS

£5m coal handling plant order

BUTTERLEY ENGINEERING, a member of the Norcros group, has been awarded its largest-ever coal handling plant order for a power station. The contract, worth over £5m, forms part of the Northern Ireland Electricity Services conversion of Kilroot power station on Belfast Lough to dual coal and oil-fired generation and is due for completion in the spring of 1988. Kilroot will receive coal by sea, primarily from the Ayrshire coalfield in Scotland. Colliers will berth at a new jetty with the coal being discharged by a ship unloader on to a wharf container. Butterley's system will then move the incoming coal via a sampling tower to one of two stockpile and reclaim areas or direct to the power station's boiler bunkers. The contract involves Butterley in supplying a ship unloader—designed to discharge a 5,000 tonne ship in an eight-hour period—the conveying system from jetty to power station bunkers and a circular stockpile system with automatic stacking and reclaiming.

★

MARCOL COMPUTER SYSTEMS has been awarded a contract by the European Space Operations Centre (ESOC) in Darmstadt, West Germany. Believed to be worth over £1m, the contract covers provision of software for the Mission Management and Control (MMCC) for the "ERS-1" Satellite, scheduled for launch on an Ariane launcher in December 1989. ERS-1 (Earth Resources Satellite) will be the first microwave remote sensing satellite to be launched by the European Space Agency. It forms a major element of the European Earth Observation programme, covering meteorology oceanography, land resources monitoring and geodynamics. The prime ground station for controlling ERS-1 is to be at Kirunain the north of Sweden. The MMCC which Marcol is providing is the central control element of the system, not only responsible for monitoring and controlling the spacecraft, but also for controlling the Kiruna complex. In addition, it processes requests for use of the satellite's instruments which have been co-ordinated by the ESA Earthnet programme office in Italy.

★

MOLINS has been awarded by Philip Morris USA a contract worth over £10m for the supply of high speed cigarette making and handling systems. The machinery is designed to operate at speeds over 8,000 cigarettes per minute. This is believed to be the first significant order placed by the tobacco industry for cigarette making machinery with capacities in excess of 8,000 cigarettes per minute. The production machines will be installed in Richmond, Virginia from the end of 1987. The machinery will be produced at Molins main UK plant at Saunderton, near High Wycombe in Buckinghamshire.

★

RENOLD CHAINS is to supply Jaguar Cars with camshaft roller chain and tensioners worth £300,000 for the new 2.9 and 3.6 litre engines which powers the recently launched XJ6 saloon cars.

★

WIMPEY CONSTRUCTION has won contracts worth £10m for work in the east and west Midlands. A £1.8m hospital production unit contract for West Midlands Regional Health Authority at Burton upon Trent follows one to build a £2.7m headquarters depot at Kettering for the East Midlands Electricity Board. A total of 120 homes are to be built in Birmingham and Nottingham under contracts worth £3.5m and home renovations and improvements valued at £2.4m are to be carried out in Birmingham and Stafford as a result of three additional contracts.

★

Contracts in the Midlands and North with a total value of nearly £10m have been won by MOWLEM NORTHERN. The largest is at RAF Alconbury, near Huntingdon, where a £8.2m contract has been received for a traditionally constructed three-storey accommodation block to house 304 enlisted personnel. Client for the project is the Property Services Agency on behalf of the US Air Force. Work has started for completion in December 1987.

★

ALFRED McALPINE has been awarded a contract worth almost £316,000 by Cheshire County Council for the A49 diversion Phase I at Warrington. The contract involves the partial demolition and reconstruction of the slab deck, beams, columns and parapets of Warrington Bridge. The bridge, built in 1915, is an example of early reinforced concrete bridge construction. The 52-week contract which starts on October 20 1986, also includes adjacent roadworks to the bridge.

★

Work on two housing projects in the West Midlands is included in contracts worth more than £5m awarded to TARMAC CONSTRUCTION. A £2.5m contract has been received for external work on 234 homes at Handsworth, for Birmingham City Council, and a £432,000 contract has been placed for modernising 40 homes at Radford, for Coventry City Council. In South Wales a £718,000 project for Mid-Glamorgan County Council, involves removing a viaduct and building a new one over the River Taff at Quakers Yard, near Abercynon. Other contracts include a warehouse and offices at Pensnett, West Midlands, for Steetley Industrial Estates (£472,000); a single-storey catering unit at Bristol Airport, for Laird Catering (£409,000); and minor civil engineering and building works at Billingham, Cleveland, for ICI (£350,000). Tarmac Construction Refurb has a £279,000 contract for upgrading a ward at All Saints Hospital, Winson Green, Birmingham, for West Birmingham Health Authority.

MANAGEMENT: Marketing and Advertising

EDITED BY CHRISTOPHER LORENZ

Pushing past its stopper

Lisa Wood explains the Dutch brewer's strategy for its premium lager

GROLSCH, the Dutch beer in the bottle with a pot-stoppered "swing top" is part of the mythical yuppie make-up which includes stonewashed jeans, designer jackets and a Filofax.

Twelve months ago, the beer, which is positioned at the small but growing premier-priced end of Britain's buoyant lager market, and is best known in London wine bars, joined the fight for space on the supermarket shelves. But it was packaged in a 44 cl can. "We felt the brand was at a level where it was sufficiently well-known for people to want the brand and not the bottle," says Keith Lay, marketing manager of Grolsch UK.

Putting Grolsch in cans is critical for building volume growth in the UK market where an increasing proportion of beer sales is in the take-home market.

For Britain's supermarkets, which take a large slice of that market, generally will not handle a returnable bottle unless the brand is so well known that they cannot afford not to stock it.

"Paced" development, Grolsch claims, has built the brand sufficiently for existing and new consumers to accept the product in a can. It is still very much on trial with supermarkets assessing the brand's potential. The Sainsbury supermarket chain, which has been carrying Grolsch in cans for over a year, says it has been selling "very well."

Victoria Wines, the off-licence chain, has been selling the brand for a similar period, but only in Scotland and the north-west of England. Its own experience, it says, is that the beer has been selling so well that it will be extending the coverage to the South-East.

If sales go well the potential is huge. At present Grolsch accounts for about 1 per cent of the £157m a year take-home trade in premium priced lagers with most of its £13m sales in the UK this year coming from the public house and wine bar trade where the brand continues to be sold in bottles.

Dermott Magee, managing director of Grolsch UK, says: "If the can fails in the supermarkets it simply means we have got our timing wrong and that the relationship between the bottle and the brand is still paramount. We would have to cut ourselves off from the home trade until the brand is bigger. But you have to remember that the supermarket and off-licence business is not an overnight magic formula for building sales of the brand. They simply open a door to a market which in the future is likely to grow faster than the on-licence trade."

Canning Grolsch was first considered in the UK in 1979 in order to gain access to supermarkets. But the option was rejected. "We recognised," says Lay, "that we had to distinguish the brand from the many others which were appearing. The speciality package was a device to introduce the brand and encourage people to try it."

Magee's marketing philosophy for the UK recognised that small premium brands cannot be treated like big mass market ones. Major brands aimed at a mass market, he claims, can be built up by large-scale advertising, trade promotions and the like with consumers being offered particular propositions.

It is essential with premium-priced products that the consumer believes he or she has made the decision to come to the brand. Therefore brand advertising has to be sufficiently discreet so as not to throw the product at people. The first strand of Grolsch's advertising campaign, started in 1984, cleverly featured the bottle top while the second strand was a little more abstract. The aim was to increase consumer awareness in the core market so that they went into their local pub and asked for the drink.

Developing the UK and other export markets is one of the major strategic aims of Grolsch, a family-controlled business. Like its competitors it sees little real growth in its domestic market where it enjoys a 14 per cent market share and is the third largest brewer after Heineken and Allied Breweries. Beer sales in the Netherlands, as in most traditional beer drinking countries, are static.

However, in its primary export markets, the US and Britain, the premium-priced lager sector offers major growth. Lager accounts for some 42 per cent of all UK beer sales; the potential exists in drinkers looking for variety and trading up to higher priced products.

Exports of Grolsch developed slowly. It was not until the late 1960s that the family which owns Grolsch even attempted to develop the brand — brewed in the east of the Netherlands at Groenlo and Enschede — into a nationally distributed product.

"Exports began by accident," says Francis de Groen, chairman of Grolsch, who, in the late 1960s, took on the responsibility for exports at a time when natural growth in the Dutch beer market was slowing down. "Some people came here on holiday from the Channel Islands and they took cases back. Then regular shipments began. Today, Mary Ann, the Jersey brewer, imports the drink."

A similar story led to Grolsch setting up in the US in 1976. Today the brand has national distribution. Sales are small—some 5 per cent of the imported beer market in which Heineken dominates with 40 per cent—but it is a profitable foothold, says Grolsch.

The mid-1970s was also the time Grolsch was attracted to the UK market, even though lager sales were then comparatively small and premium-priced lagers were virtually non-existent. Magee says that brewers were then seeking to import or brew under licence draught continental lagers such as Holstein, Lowenbrau and Carlsberg, but were suspicious about a more expensive product that they thought was in an old-fashioned bottle.

Until last Christmas the brand was sold by Watney Mann and Truman. However, Watney discontinued the relationship because it could get a product in similar packaging more cheaply from West Germany. However, only this month Watney has started to take Grolsch again. "It must be the strength of the brand's identity," says Lay.

Grolsch appears fairly well pleased with the brand's performance in the UK and there is a growing confidence that the timing of the introduction of the can was correct.

Grolsch is also having to adapt to changes in its home market. In the Netherlands, like the UK, there is a growing thirst for imported beers. Because of this the company has introduced a limited range of imported beers into its domestic market including Bass Ale and Diebels Alt, a West German beer for which it has sole rights outside Germany. "We have to protect our own products in the distribution chain," says Magee. "If we offer a range of products we maintain contact for distribution of our major brand." Grolsch, however, is not putting its own marketing skills into the deal. "We are just the distributor," says Magee, "with the brand owners putting in the advertising and support."

Retailing in North America

Giving hassle the heave-ho

Tony Thompson suggests that courtesy t owards customers is making a come-back

BEING OBLIGING and helpful to customers is becoming fashionable among many of the very North American manufacturers and retailers which have for years foresaken courtesy in their quest for market share and profit margins. Now that differencials in quality and price are moving closer to parity, service is the latest buzz-word among mass marketers.

In today's hurried society, consumers become frustrated with an imperfect product or service much sooner than in the past. There are now signs that the sophisticated shopper simply wants hassle-free service and that many service industries are responding. Paradoxically, they are discovering that while personal contact is still the crux of customer relations, electronic wizardry is an excellent tool.

Electronic checkouts, now used in most major North American supermarkets, can process a 50-item grocery bill in less than a minute and provide the shopper with an itemised printout. Computers help American Express replace within 24 hours the 4,000 cards lost by their customers every day. "The best thing I can say about banks is: 'Thank God for banking machines!' Now, that's customer service," a consumer panel participant is reported to have said in a recent publication, Profitable Customer Service Techniques, by Anthony Andrejicka and Leonard Kubas.

During the 1970s and early 1980s when preoccupation with market share and profit margins was at its height, the actual customer was abandoned in favour of the accountant's numbers. In retail stores full-time staff were replaced by inexperienced but cheaper part-timers hauled in for peak selling periods.

In Canada, major supermarket chains suffered when elements of service were withdrawn. Miracle Food Mart, an Ontario chain, promised lower prices, but customers would have to pay 5 cents for the carrier bags, which other stores provide free. After handing over $200 for their groceries, shoppers were more than a little peeved to find they had to pay a 50-cent surcharge for the bags. This was widely held to have been a factor in the company's profits decline as custom fell away. Miracle eventually dropped the bag charge.

"Deep discounting was a practice of the 1970s," says Stephen Owen, formerly Dominion's advertising director and now director of new services with Ogilvy and Mather Canada. "Today most deals are close to parity; most promotions are close to parity. What you are going to find over the next eight to 10 years is that retailers—stores, banks, airlines, etc.—will market themselves as brands. Consumers will deal with organisations providing customer satisfaction."

In their book, Andrejicka and Kubas note: "Low price retailers are at risk when service-minded competitors offer attractive (sometimes below cost) prices on selected items. To meet these special prices would remove most of the margin the price retailer could hope to maintain. This is a tough position to defend."

There's nothing cut-price about American Express, the international credit card organisation. The company began highlighting customer service in the early 1980s, when it changed its advertising slogan from the headmasterly "You've earned it" to the guardian angel image of "Don't leave home without it."

"We began to realise that the service quality we provided was recognised by cardholders, but to the people who were not it wasn't clear," says Louis V. Gerstner Jr, president of American Express, New York. "So we have increased the emphasis on service in our marketing."

Having created the image, the company had to live up to the promise: a formidable prospect. Every year, out of the 23m American Express cards issued, 1.5m go astray, about one every 20 seconds. The company boasts that most lost cards are replaced within 24 hours, no matter how far away cardholders are from their home countries. "It cost us millions of dollars to put that capacity in place," says Gerstner. "But we emphasise to our people that the computer systems are just a tool. It's people that count."

And it starts with the top people. Both Gerstner and company chairman James D. Robinson III read customers' letters each day, answering many themselves. When visiting operations centres, the two chief officers allocate time to monitor incoming phone inquiries and although sometimes "tempted" they don't butt in, says Gerstner.

"When the next store is 850 miles away, customer satisfaction sure ain't the buzz-word"

The company rewards staff who go above and beyond the book in helping American Express customers. Later this month a group of 19 employees chosen from the 37,000 employees in 131 countries, will arrive in New York with a companion of their choice to receive their awards, including $4,000 to spend as they wish.

The effect has been noticeable. Despite intense competition from clearing bank cards 10 per cent more American Express cards were in force in 1985 compared with a year earlier and net income was up by 19 per cent at $461m for the same period.

What American Express appears to be managing globally seems to have been lost on many businesses operating on a smaller scale. "In some big department stores the top brass are so far removed from what's happening in their stores it's pathetic," says consultant Anthony Andrejicka, president of Andrejicka-Ross Corporation, Toronto. "Managers have become more concerned with policies and systems than they have with customers. If you don't get your top management involved, you're wasting your time."

Andrejicka says the decline in service began with the recession in the early 1980s. In many chains more than 60 per cent of the sales staff are part-timers. "You're not going to be very loyal if you are only paid half what a full-time worker is receiving," says Andrejicka.

The pace to provide added customer services is fastest among those service industries that at one time appeared to present a cavalier attitude towards their customers, such as banks and airlines. In fighting off competition from other financial institutions, clearing banks are extending branch hours to suit local needs; many now open again on Saturday mornings to provide full banking facilities, including interviews with the manager.

Airlines keep adding extra perks for passengers who fly with them. Wardair, Canada's number three airline, is offering up to $100 in gift vouchers to passengers if they are not checked in within two minutes, their flight leaves late, or their baggage is not delivered within 10 minutes of the passenger's arrival at the baggage claim area.

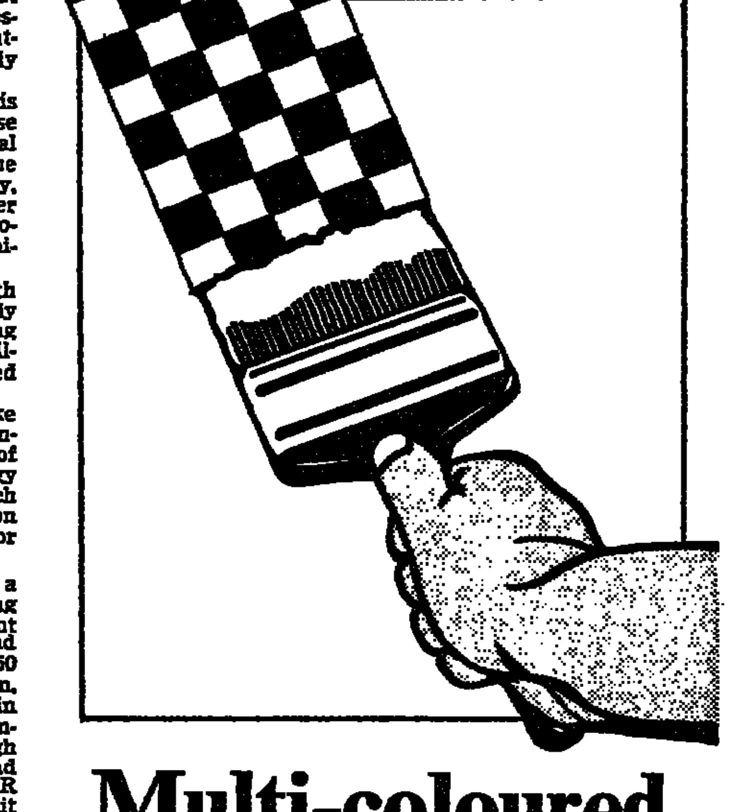
Keeping in touch with the customer is beginning to move back to the manufacturer, too. Many package goods companies are including 1-800 (Freephone) numbers on their products, inviting consumers to call with complaints, instructions, or for a daily recipe.

Andrejika and Kubas say improved customer service programmes almost always "translate into lower operating costs and higher productivity." And, with other purchasing methods gaining ground, such as direct response and in the future electronic shopping through home computers, service will become essential for survival for many traditional methods of distribution.

"The idea that service is the latest marketing hot button is probably true," says Gerstner. "For us it's the fundamental essence of our business strategy. It involves how we commit funds; how we communicate to people."

Profitable Customer Service Techniques, Retail Council of Canada, 210, Dundas Street W, Toronto, M5G 2E8, C$99.95.

TECHNOLOGY



Multi-coloured dream coat

Ian Hamilton Fazey explains why Becker of Sweden has changed its pattern of paint making

A NEW paint will come on the British market next month that can do the seemingly impossible—paint the chequered pattern of a chess board with only one sweep of a spray gun.

But painting chess boards is merely a means to dramatise the scale of the technological advance. The paint's real value is in the furniture industry, where it makes possible cheaper and easier production of two-tone kitchen and bedroom furniture.

The effect of this on both design and unit costs is already apparent in Sweden, according to the coatings company Wilhelm Becker, which developed the paint.

Becker has been quick to take out world patents for the invention. The coating is part of a renewed high technology drive by the company, which has just spent nearly £2m on new research laboratories for its industrial paints.

This is a large sum for a small company competing against such international paint giants as ICI, BASF, PPG and Hoechst. Moreover, of 350 Becker employees in Sweden, more than 100 now work in various laboratories. The company says that only through combining its marketing and research and development (R and D) philosophies can it justify such heavy spending and steal a march on the paint market leaders.

Goran Wikstrom, president of Becker Industrifarg, says: "People ask us if we, as a little company, are mad to be doing this. But we have R and D by marketing objectives. We take problems in our markets and solve them in the laboratory. We do not develop things and then look for markets. Products are customer-driven not research-driven."

The two-tone paint is an example of this philosophy at work. The marketing objective was to allow customers in the furniture industry to improve design and style without incurring the high costs of hand-finishing that would in turn have to be passed on to consumers.

The paint is a two-pigment mixture. The key to the way it works is that particle sizes of the two pigments are widely different from each other. Spray the paint on to the right type of absorbent surface and the small-particle pigment will be absorbed, leaving the bigger particles of the second pigment on the surface.

Spray the paint on to a non-absorbent surface, however, and the whole mixture will lie there, with the two pigments interacting to produce another colour.

For example, a mixture of blue and yellow pigments would produce green if sprayed onto a non-absorbent surface. But if, say, the blue pigments were carried on smaller particles than the yellow and the mixture sprayed on to an absorbent surface, the blue would soak in, leaving a yellow surface.

Now take a piece of wood, sand it smooth by machine and spray with a primer to make the surface non-absorbent. Next cut a pattern in it—and it can be much more complicated than checks. The gouged-out area of the pattern will be absorbent while the surrounding and adjacent primed surfaces will not be. In practice, the furniture industry cuts such patterns and grooves by numerically controlled machine tools.

Spraying with the new paint, which Becker calls Arabesque, will produce one colour on the non-absorbent, primed surface and another in the cut-out pattern. In the example above the main surface would be green and the cut-out pattern yellow.

The paint comes in a wide range of complementary colours many of them very subtle, with a promise that new combinations will be dictated by the demands of furniture designers.

The system works best where the absorption rates of the primed and cut-out surface are widely different, which makes medium density fibreboard—a staple feedstock of the furniture industry—ideal.

Arabesque, however, is only one example of Becker's innovative research programme. It claims that one part of its new industrial paint laboratories is unlike any other in Europe

This is the Becker test paint shop, which differs from those of other paint companies in that it is equipped with a computer-run climate control system. This enables the climate of any part of the world to be simulated exactly in terms of temperature and humidity.

Why this is important is that many industrial paints are highly specific products for particular markets and niches, and their specification has to be exact. Some cannot have tolerances built into them to cope with climatic variations without affecting performance. Mr Wikstrom says this is particularly crucial for some of Becker's car paints.

The company is a main supplier of paint to Volvo and Saab. "We have to be certain that the paint we send to Volvo for application at its factory in Ghent in May will perform identically to the same type of paint that Volvo applies to a car in Gothenberg in November," says Mr Wikstrom.

Batches can be tested exactly in the new test paint shop—and specifications can be modified to ensure universality of colour and performance wherever it is applied and whatever the surrounding conditions.

This is going to prove critical to a prototype paint being tested on the Saab of Becker Group's international vice-president, Sten Skoog. This looks like any other fawn-coloured metallic paint, but it breaks what were thought to be immutable laws for giving metallic paints their sheen.

This sheen comes from putting aluminium particles in the paint, but usually it only works if the paint is applied very thinly to allow the aluminium particles to lie flat. If they crowd together, they stick up on end, making the colour "flip" between light and dark shades as the observer walks round the vehicle.

The paints are thinned with solvents that emit troublesome gaseous effluents. Car manufacturers have come under increasing pressure in North America, Scandinavia and West Germany to reduce solvent emissions from their factories.

Although ICI has a world lead in solving the problem by making metallic paints with water solvents, this requires modification of paint shops. Car makers have, therefore, tended to consider this product only when constructing new manufacturing facilities.

Becker is working on a water-based metallic car paint too. But, lacking ICI's industrial muscle, is realistic about its ability to persuade customers to change. It has therefore taken some technology from PPG and modified it to tackle the metallic paint problem from another angle.

Mr Wikstrom will not say how it works, but microgel technology is used to keep aluminium particles flat in a thicker, "high solids" paint mixture. This cuts solvent emissions by 80 per cent, as opposed to 85 per cent taking the ICI water-based route, claims Becker, and no modifications are needed to the paint shop.

Mr Wikstrom gets his new company car, a Volvo, in a few weeks. It too will be painted with one of the new high-solid metallics. He is hoping for the present mild winter in Sweden to worsen, so he can give the coating a really stern test.

WORTH WATCHING

Edited by Geoffrey Charlish

Plessey detective takes a long-shot

PLESSEY RESEARCH at Caswell in the UK has developed a small, infrared security detector able to sense the presence of humans, animals or vehicles at ranges up to 75 metres.

It does so by sensing the small amount of heat (infrared, radiated by living animal tissue and vehicle engines). A special lens made from germanium rather than glass collects and focuses the heat rays on to a detector that generates an equivalent electric current. Only current changes, produced by movements are sensed.

The device, designated PSH 711, is only 25 mm (about one inch) in diameter and 120 mm long. The lens allows it to be pointed at a relatively small area like a door or window. The small size of the device and its cable-connected control box (125 x 80 x 57 mm) means that the system is easily hidden. Furthermore, the fact that it is "passive" (does not itself radiate as do "active" devices) means it cannot be detected easily by unwanted intruders.

How ICI masters industrial logic

ICI SUBSIDIARY, Industrial Efficiency Systems of Middlesbrough, UK, has launched Auditor PC, a computer, screen and keyboard unit which will control and supervise a plant network of programmable logic controllers (PLCs).

PLCs are devices that can be programmed to run sequences on individual pieces of plant or machinery. With Auditor PC, a process operator can program any make of PLC from a central location and get back management summaries and trends about the process. Time is saved and efficiency improved.

ICL circuitry: A change of protocol

INTERNATIONAL COMPUTERS (ICL) of the UK is to introduce MAP (manufacturing automation protocol) at its printed circuit board plant in Kidsgrove, Stafford.

The scheme is backed by the UK Department of Trade and Industry which will meet 25 per cent of the expected £0.5m implementation cost. An autumn 1987 start up is planned.

Hoechst makes a case for sunlamps

HOECHST, the West German chemical company, has introduced engineering plastics based on PBTP (polybutylene teraphthalate).

Called Hostadur, a principal characteristic of the material is good dimensional stability at high working temperatures and it has already been used by Reiher in Germany to make an infrared health lamp casing (reinforced with 20 per cent glass fibre). Because of the heat thrown out, such lamp shades and fittings are usually made from metal.

Hoechst says that its new material also exhibits no stress cracking, has high abrasion resistance and retains its shape well. It can also be lacquered.

French shortcut to top of building

V-ROOF is an instant building system design from France which is said to allow 80 per cent of construction work to be carried out in the factory, thus making for faster completion of on-site operations.

According to Mr Yves Theault, who designed the system, three building workers could roof an area the size of a five-a-side football pitch in two days, including installing all the services.

The roof consists of interlocked "V" sections six feet wide and 72 feet long. The ends of these sections rest on concrete or metal-frame wall panels with a "saw-tooth" top.

At the factory the V-roof shells are assembled from welded metal tube supporting an aluminium sandwich containing glass fibre insulation. Roof cabling and other services are also installed at the factory.

BT speaks out on share prices

BRITISH TELECOM is conducting trials of a new share price service in which a computerised voice will "speak" the information requested by the caller.

The user needs a touch-tone keypad telephone. Having phoned the service, called Citycall Portfolio, he keys in the codes of the shares in which he is interested. A Compaq computer interrogates its database, provides the necessary words and numbers and a Votan voice card in the computer converts the information into speech.

CONTACTS: Plessey Caswell: UK, 0327 50581. Industrial Efficiency Systems: UK, 0642 227681. Theault et Cie, Tracy sur Mer, France, 3122 3188. ICL: London, 788 7272. BT Citycall, London, 241 1557. Hoechst: London office, 570 7712.

Fuel injection moves into the driving seat

BY JOHN GRIFFITHS

NINE out of every ten cars produced in the US in 1990 are likely to be fitted with electronic fuel injection (EFI) systems, thus virtually consigning the carburettor to history, according to a new report from Planning Research & Systems, the statistics and forecasting group.*

PRS predicts that 69.3 per cent of Japanese car production in that year will incorporate electronic injection, and 45.3 per cent of cars produced in Western Europe.

Usage of such systems made quantum leaps between 1982 and 1985 in all three main car producing areas, PRS's statistics show.

In Western Europe during that period the share fuel injected cars took of total production rose from 11.2 to 19.6 per cent; in the US from 17 to 58 per cent, and in Japan from 16.3 per cent to 29.4. This year, says PRS, West European usage will have risen to 22 per cent, the US to 70.5 per cent and Japan to 35.1 per cent.

These percentages exclude diesel-engined cars, all of which are fuel injected, and which in Western Europe PRS expects to account for 18 per cent of all car production this year. (Diesel cars are virtually non-existent in the US, and accounted for only 3.7 per cent of total Japanese car production last year.)

The growth of "EFI" will be encouraged mainly by the demand for more powerful engines arising from the lower real price of fuel. But other factors, such as its lower pollutant emissions and its image-making marketing role are also at work, points out PRS.

And while improved electronic control of carburettors could prove a viable alternative to injection for small engines in Europe, "it is probable that all petrol cars over 1.4 litres ultimately will use fuel injection" as a result of pending EEC legislation to reduce exhaust emissions.

The higher penetration of fuel injection already achieved in the US reflects the ever more stringent requirements of the CAFE (corporate average fuel economy) legislation, and the widespread use of a simple, single-point injection system, rather than one-injector per cylinder, says PRS.

However, as US cars switch increasingly to four, rather than six or eight cylinders "so towards the end of the decade we expect multipoint injection increasingly to displace the single point, throttle body injection systems currently dominant."

Japan, however, uses predominantly the sophisticated multi-point injection systems and is likely to remain ahead in their applications, says PRS.

Contributing factors are a faster rate of new engine introduction than in either of its rival car-producing blocs, "together with the technological sophistication of the leading Japanese producers in the medium and large car segments."

*World Fuel Systems Market Passenger Cars 1982-1990. PRS Business Publications, Premier House, 44-48 Dover Street, London W1X 3RF. £750.

FINANCIAL TIMES SURVEY

Thursday December 18 1986

Semiconductors

A deep recession in demand has forced losses and lay-offs among US manufacturers, who are under pressure from Japanese imports. As the industry matures a smaller group of global companies is expected to emerge

Facing hard realities

By Louise Kehoe

"NEW REALITIES have changed the semiconductor industry forever," W. J. Sanders III, chairman and chief executive of Advanced Micro Devices, told shareholders at the company's recent annual meeting in Silicon Valley, California.

For AMD, and for many of its neighbours, reality has meant layoffs, cutbacks and losses throughout 1986. The worst recession in the semiconductor industry's 20-year history may leave a permanent scar on US chip makers. It will also mark the beginning of a major restructuring of the world semiconductor industry, many believe.

The chip business is "maturing," say industry analysts, into a "global" industry in which a smaller group of international companies will compete against each other on a worldwide basis. While 1987 should bring some improvement in business conditions and a world market growth rate of about 10 per cent, it will not reverse the trend towards consolidation of the industry.

The historic rate of world growth in demand for semiconductors is slowing down, analysts believe, from an average 18 per cent per year to less than 13 per cent.

What the industry needs, some say, is a new "boom" product—something that can create a sudden surge in chip demand as did the personal computer, the electronic calculator and the digital watch. Without such a product, growth in semiconductor sales will be linked to the modest economic growth rates forecast for the major consuming nations.

The harsh reality that semiconductor manufacturers worldwide currently face is that demand will not match up to the gross surplus in existing chip production capacity for the foreseeable future.

This year more than 40 per cent of world semiconductor production capacity in the US, Europe and the Far East—has lain idle, analysts estimate. This unused plant, much of which will be obsolete within a few years, represents a major capital drain on semiconductor manufacturers.

The chip makers' problems are multiplied by the rising capital cost of semiconductor manufacturing. A state of the art chip production plant costs at least $100m to set up today. In ten years it is projected to cost $850m.

Only large conglomerate companies, or those backed by government funding, will be able to supply the capital needed to survive in the semiconductor industry of the 1990s, some analysts predict.

US chip makers, several of which are independent, relatively small companies, have been hit hardest by the rising capital costs of the semi-conductor business.

"We have got to cope with the fact that most of the world that we as a US industry compete with is subsidised and we are not," says Mr Jon Cornell, executive vice-president of Harris Semiconductor. "It is the deep pocket problem."

In the US, that "deep pocket" may turn out to be the Department of Defense. US chip makers plan to seek as much as $1bn in Defense Department funding for a collaborative venture designed to restore their manufacturing technology leadership.

The economics of chip manufacturing would appear, however, to favour Japan's large conglomerate companies rather than Silicon Valley's independent semiconductor producers.

The Japanese industry itself, however, now faces new challenges. The rising value of the yen, growing trade friction with the US, and the competitive pressures from countries such as Korea are putting pressure on the Japanese semiconductor industry to change its strategy, says Mr Sheridan Tatsuno of Dataquest. Having achieved a dominant position in the "commodity" chip market for memory devices, the Japanese semiconductor, producers are also looking for ways to broaden their markets.

International alliances offer a solution to the problems of both US and Japanese companies. With technology as a bargaining chip, US companies are increasingly trading innovation for capital, manufacturing capability, and market access.

An example of this trend is the recent joint venture agreement between Motorola of the US and Toshiba, of Japan. The agreement provides Motorola with increased access to the Japanese market as well as "commodity" memory chip technology. In return, Toshiba gains access to Motorola's valuable microprocessor chip technology.

Fujitsu's acquisition of a majority stake in Fairchild Semiconductor similarly benefits both parties, as do alliances between National Semiconductor and NMB semiconductor of Tokyo or Advanced Micro Devices and Sony.

Despite appearances to the contrary, it is clear that executives in both the US and Japanese semiconductor industries take a pragmatic approach to international business relationships. While national strategic and economic considerations will no doubt continue to fuel trade disputes, the semiconductor industry is quickly evolving towards a "global" structure.

The position of Europe, the third and weakest leg in world semiconductor manufacture, remains problematical. Production in Europe is still small compared with the US and Japan, though the trends point to an increase.

The expectation, says one forecast, is that demand and shipments will increase substantially next year.

Sales by US-owned companies in Europe are significantly greater than those by European and Japanese-owned organisations and the "Silicon Valley connection" will prove hard to match. However, investments are being made, for example by Philips and Siemens in a joint venture to develop advanced memory chips.

In France, Thomson, supported by the government funding, bought into Silicon Valley know how last year by acquiring US assets. Now it is consolidating this approach by teaming with SGS, the semiconductor maker controlled by the state-controlled IRI group of Italy, in a FFr 1.5bn four-year programme to develop an advanced super memory chip.

The key to Europe's future in the market will be research, and the ability to produce chips that user manufacturers demand at the right price.

One trend that will help Europe's makers against the power of the US and Japan is the increasing demand for semi-customised chips for specialised applications. Where demand for particular products is conditioned less by price than the ability to deliver exactly what the buyer needs, Europe's smaller companies are possibly in with a chance.

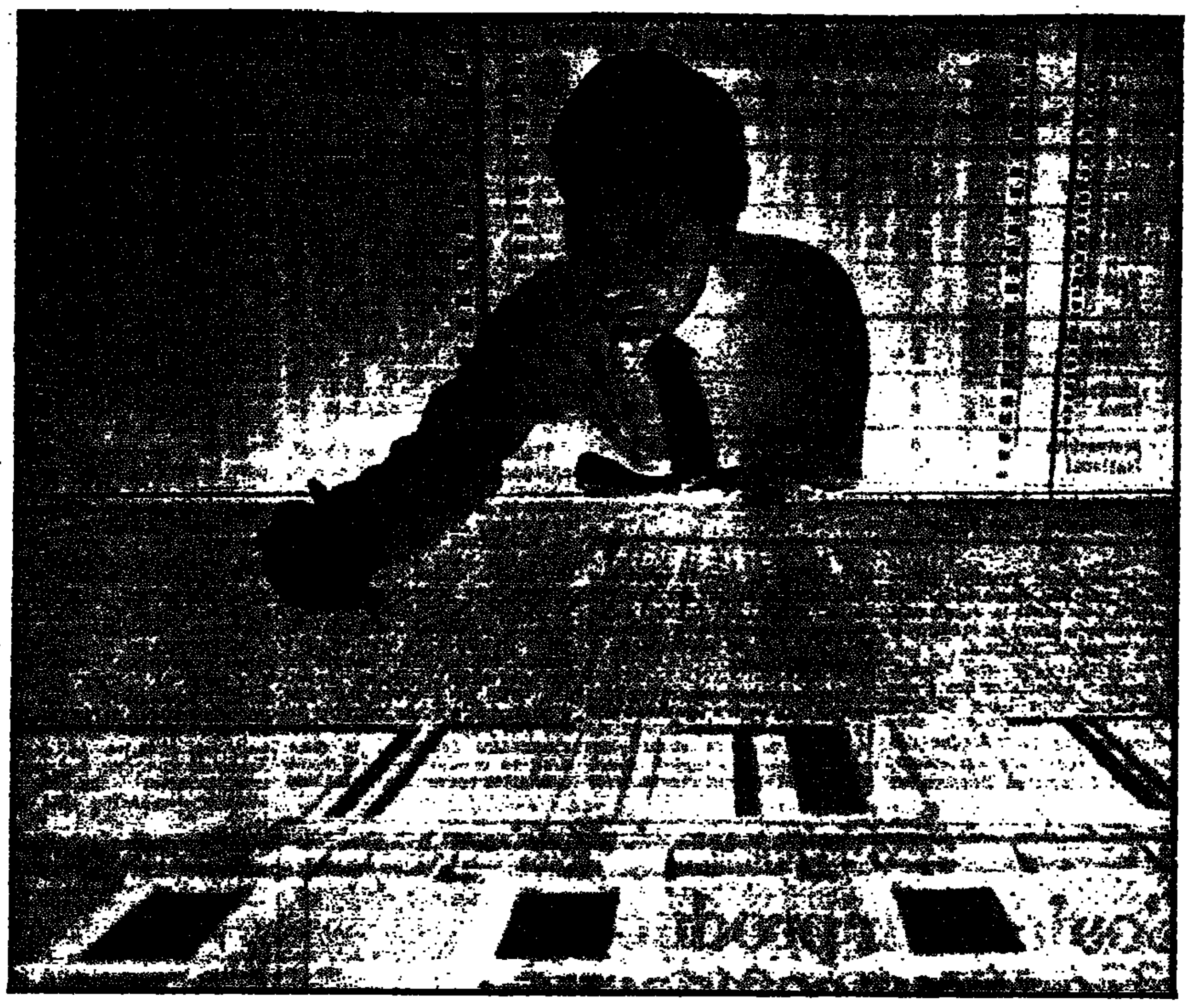
Yet to be seen is the extent to which the Japanese extend manufacture in Europe, following for example the steady march westward of Japan's consumer electronics industry.

And a further factor, affecting all the main manufacturing countries, is the emergence of newly-industrialised and highly price-competitive countries such as Korea and Taiwan, where investment and manufacture to Western and Japanese standards in various industries is becoming the norm.

World consumption of semiconductors ($m)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
US	6,259	7,763	11,599	8,091	8,429	8,860	8,677	10,177	11,479
Japan	3,985	5,534	8,034	7,598	9,852	10,480	10,494	12,347	13,924
Europe	2,998	3,319	4,735	4,541	5,381	5,760	5,763	6,480	7,136
Rest of world	822	1,152	1,586	1,250	1,761	2,036	2,328	2,812	3,306
Total world	14,064	17,767	25,956	21,479	25,423	27,075	27,262	31,816	35,844
Percentage growth	n.a.	26.3	46.1	−17.2	18.4	6.5	0.7	16.7	12.7

Source: In-Stat Incorporated.



Checking the blueprint of a 32-bit microprocessor containing 70,000 transistors. The chip, designed and manufactured by National Semiconductor of California, can process more than a million instructions per second

CONTENTS

World market

Price increases follow trade friction

TRADE FRICTION between the US and Japan has dominated the world semiconductor market throughout 1986. The broad US Japanese semiconductor trade agreement, reached at the end of July, has so far done little to calm the resentment on either side of the Pacific.

The four-month-old trade agreement has, however, already had a dramatic impact upon world trade in semiconductors, causing price increases in the US, and problems for semiconductor buyers worldwide.

The trade pact has two major objectives:

- To provide increased access to the Japanese semiconductor market for foreign producers; and
- To prevent Japanese semiconductor manufacturers from "dumping" their products at prices below "fair market value" in the US and other world markets.

While it is too soon to say whether the first objective of the pact is being met, US semiconductor companies have already begun to increase their presence in Japan, aiming to take advantage of improved opportunities.

Motorola, the second largest US semiconductor manufacturer, recently reached a joint venture agreement with Toshiba under which the two companies will build a new plant in Japan and licence each other to produce a wide range of products.

Top ten semiconductor suppliers—1986

Company	Rank 1986*	(1985)	Forecasted sales ($m)
NEC	1	(1)	2,865
Hitachi	2	(4)	2,270
Toshiba	3	(5)	1,975
TI	4	(2)	1,970
Motorola	5	(3)	1,820
Fujitsu	6	(6)	1,560
Philips†	7	(7)	1,100
Intel	8	(8)	1,085
Matsushita	9	(10)	985
National	10	(9)	970

* Forecast. † Including Signetics.

Source: Integrated Circuit Engineering Corporation.

It is however the "anti-dumping" aspects of the trade agreement that have created most of the controversy surrounding the pact. Under the terms of the trade agreement, the US Commerce Department is empowered to determine the "fair market value" for memory chips made in Japan. Each Japanese producer is assigned an FMV for its products on a quarterly basis.

The immediate impact of this system has been a dramatic rise in Japanese memory chip prices in the US, with some companies being assigned much higher FMVs than others. Over recent weeks, new lower FMVs have been assigned but prices in the US remain significantly above those in Japan, Europe and Asia.

In attempts to circumvent the trade agreement, large quantities of chips have been diverted through "grey market" channels, to US buyers. According to the Japanese Ministry of International Trade and Industry, Japanese chip exports ot Canada went up by 572 per cent in October, while Latin America's imports doubled. Many of these chips are believed to be finding their way into the US.

Taking a different, and legal, approach to the problem, Nippon Electric Corporation plans to increase its production of memory chips at its US plant in California by 60 per cent over the next three months. Similarly, Texas Instruments (which has a major memory chip production plant in Japan and is therefore subject to price controls on its exports from Japan) is increasing memory chip production in the US. And in a move that has raised considerable concern in the US, Fujitsu, Japan's largest electronics company, is planning to combine its US semiconductor operations with those of Fairchild Semiconductor, a major Silicon Valley producer, and acquire an 80 per cent stake in the combined company.

However, it is the impact of the trade agreement in "third country markets" outside the US and Japan that has caused most criticism of the trade agreement. In Europe the trade agreement has ben challenged as illegal under Gatt.

So far such complaints are academic, according to US government and industry officials, who say Japanese semiconductor manufacturers have simply ignored aspects of the trade pact that prohibit the "dumping" of Japanese chips in third country markets.

Memory chip prices in Asia and Europe remain significantly lower than those in the US, according to US chip makers and buyers. At the latest round of US-Japanese negotiations on the issue, last month, Miti officials agreed to monitor exports more closely and to issue "administrative guidance" to Japanese companies emphasising the need to comply with the trade agreement. The US government has agreed to "wait and see" whether Miti's actions will be effective in curbing Japanese dumping, but the US semiconductor industry is already demanding that sanctions be imposed against violators.

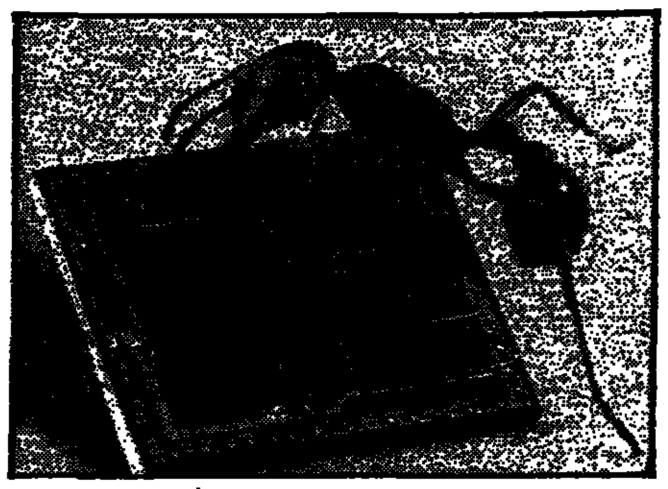
Caught in the middle of this row are US chip buyers—makers of computers, telecommunications equipment and other electronic gear. They face the prospect of their foreign competitors gaining a cost advantage because of lower chip prices abroad.

Japanese trade statistics would suggest that the rush to offshore manufacturing in lower labour cost countries is already under way. Japanese chip exports to Asia doubled in October. But several other factors, including the high value of the yen causing Japanese companies to increase their offshore production, may also be involved.

According to Dataquest, because of increased off-shore manufacturing, $700m in semiconductor devices that otherwise would have ben consumed in Japan and the US were instead consumed in the Pacific Basin region of Korea, Taiwan, Hong Kong, Malaysia and Singapore during the first half of 1986.

Demand for semiconductors in the Pacific Basin countries has risen by over 50 per cent this year the market researchers say. Much of this growth it attributable, however, to the booming consumer electronics and personal computer manufacturing industries in these countries.

Louise Kehoe



The microchip made from the blueprint on the previous page, with an ant to provide scale

The US

Siege mentality after losses

A SIEGE mentality permeates the US semiconductor industry. Threatened by Japanese competition and facing the worst recession in the industry's history, US chip makers have "circled the wagons" to join forces in facing the industry's problems.

The need for a concerted effort is only too clear. Last year, US chipmakers recorded combined losses of more than $1bn. This year's results will not be much better. Layoffs have reduced employment in the industry by an unprecedented 60,000 jobs since the recession first struck in late 1984.

Another measure of the US semiconductor industry's woes is the gross surplus of manufacturing capacity. According to industry estimates, almost half the US industry's production capacity has been unused over the last two years. That represents billions of dollars of capital investment producing no return for the chip makers.

Nor can US semiconductor manufacturers count on a sudden surge in demand to boost their profits. According to most industry analysts, there is no new "electronic hula hoop" on the horizon that will create new demand for chips, as did the electronic calculator, the digital watch and the personal computer in the past.

To make matters worse, foreign competition, primarily from Japan, has steadily eaten into the US chipmakers' markets, both at home and abroad. For the first time in the industry's history, this year Japanese chip manufacturers will outsell those of the US and the largest US merchant chipmaker, Texas Instruments, will be relegated to the position of fourth in the world, behind three Japanese companies.

"The good news is that we are facing up to reality. We are weary of playing the part of the terminally ill industry and are taking positive actions to solve our problems," said Jon Cornell senior, vice-president and semiconductor sector executive at Harris Semiconductor.

Within the "circled wagons" of the US chip industry, the mood is surprisingly optimistic. Industry leaders believe that the combined effects of the lower value of the dollar and the US-Japanese semiconductor trade agreement that promises greater access to the Japanese market will create important new export opportunities.

And there are some signs that market condtitions will improve in the US next year. Dataquest, the US market research firm, projects a 12 per cent growth rate for the US semiconductor market in 1987, up from 6.4 per cent this year. Improved market conditions, however, will depend largely upon the fortunes of the US computer industry. Until capital spending, and thus computer purchases, trend upward, there will be no real recovery.

For some, the timing of the upturn may mean the difference between collapse and survival. As W. J. Sanders III, chairman of Advanced Micro Devices, put it: "There will be blood on the ground before this is over." Particularly vulnerable are the independent "merchant" manufacturers, who lack the financial strength of diversified operations on which to fall back.

For the first time in this young industry's history, there is now a widespread understanding that the next upturn, when it eventually comes, will not bring an end to all of the industry's problems.

"New realities have changed the semiconductor industry forever," said Mr Sanders. "We must face the fact that the world has awakened to the value of technological leadership. The United States is no longer the unchallenged leader in high technology."

Although next year may bring increased semiconductor demand, internatonal competition will not go away, neither will the question of how to raise the enormous sums needed to advance the state of the art of semiconductor technology, or the costs of new production facilities, estimated to run as high as $650m per plant by the end of the decade, the US industry now recognises.

Collectively, the US chipmakers have dramatically changed their attitude toward what must be done to save the industry. "We have stopped taking a position of simply blaming (the Japanese). Blaming is not enough. What we have concluded is that we must act or, indeed, perish," said Mr Cornell.

The industry, that in many ways has been the role model for entrepreneurial high technology companies, is turning away from "self-determination" toward "co-determination."

"Historically, we have tended to go it alone in terms of R and D activities for the benefit of competitive advantage," Mr Cornell said. Now the industry had recognised "that dealing with the problems of technology for the future is something that is larger than any of us individually can deal with. We have faced up to that."

Banking, high on the industry's action plan is a co-operative manufacturing venture. "Sematech," as the project has been named, is a plan for a $1bn effort to put the US back in the lead in semiconductor manufacturing technology by constructing an advanced production facility to be jointly funded by chip makers, major users, including the leading US computer manufacturers, semiconductor production equipment makers and, most importantly, the US Government.

Sematech is expected to focus upon high volume manufacture of memory chips, in particular dynamic random access memory (Dram) chips. At present, Japanese manufacturers hold a commanding 90 per cent of the $1bn world Dram market. Sematech would give US manufacturers an opportunity to regain strength in Drams while also developing new production technology for the next generation of very large scale integrated (VLSI) chips of all types.

Louise Kehoe

Europe

Coming out of the doldrums

THE NEXT year should be a better one for both the European semiconductor market and for European-based semiconductor manufacturers. Several trends are converging to suggest that Europe is coming out of the doldrums.

Demand is expected to improve from the recent dismal performance. There should be a 14.8 per cent growth in dollar sales of semiconductors in Europe this year, according to the London office of Dataquest, the US-based research and market outfit. Dataquest says that demand is particularly strong from the West German industrial sector.

Next year, semiconductor shipments in Europe will increase by 13 per cent, according to a review of the European scene published last month by Motorola, which predicted particularly strong growth in demand of about 25 per cent from the automotive sector.

On the demand side, one of the main clouds on the horizon is whether the long-feared downturn in the computer market, similar to that which has already hit the US, might finally trouble Europe. But it is possible to exaggerate even the impact of a computer slump: in Europe this year, Dataquest says, sales to the computer industry will account for only 18 per cent of overall demand for semiconductors.

In terms of manufacturing, Europe is still a minnow compared with the US and Japan. Last year, it managed only 11 per cent of merchant semiconductor production, compared with 47 by the US and 39 per cent by Japan, according to figures from Integrated Circuit Engineering, a US research organisation.

Even in Europe last year semiconductor sales by European-owned companies totalled $1,809m, lagging well behind sales by US-owned companies ($2,377m), though outdistancing those of Japanese companies ($534m).

However, some European companies are facing up to the challenge of staying in the semiconductor race.

Philips of the Netherlands, for example, has just opened a design centre and pilot production plant in Eindhoven, which will be working on sub-micron application technology. Part of the new facility will be devoted to work on the Megaproject, an ambitious joint venture with Siemens of West Germany, to which the two companies have devoted 1.5bn Dutch guilders in an attempt to match Japan's leadership in advanced memory chip technology.

Semiconductor sales in Europe-1985

	TOP 5 EUROPEAN-OWNED COMPANIES	$m	TOP 5 NON-EUROPEAN COMPANIES	$m
1	Philips	596	Texas Instruments	468
2	Siemens	270	Motorola	389
3	Thomson	240	Natl. Semiconducters	218
4	Telefunken	133	Intel	212
5	Plessey	66	ITT	185

Source: Dataquest.

Philips recently installed a new line at its Hamburg plant to meet what it describes as a soaring demand for 8-bit MOS microprocessors.

Thomson of France, supported in recent years by substantial funds from the French Government, is taking a more international perspective than previously. Last year, it acquired a US base by buying from United Technologies many of the assets of Mostek, a leading Silicon Valley company. Thomson is seen as a world leader in integrated circuits on smart cards.

SGS-Ates, part of the Italian Stet group, last year began mass production at a large plant in Singapore as part of an aggressive international expansion effort.

Plessey of the UK, is ploughing £50m into a new 6 in CMOS wafer plant at Roborough, which it sees as the flagship of its semiconductor effort. It hopes that about 70 per cent of the new plant's output will be sold eventually outside the UK, mainly into the telecoms, instrument and digital signalling markets.

European Silicon Structures (ES2) recently delivered its first commercial microchips a year after its launch. ES2 is pioneering in the degree it is stressing European co-operation almost 150 engineers and semiconductor designers of various nationalities are working for the company. Like many European semiconductor companies, ES2 is concentrating on customised chips, the type of semiconductor needed increasingly by companies in relatively small numbers for specialised applications.

An extra spice being added to the European brew is trade friction. Motorola says Europe's trade deficit in a semiconductors this year will be $2,850m. Tension at present centres on the Japanese.

This year, according to Motorola's figures Japanese companies will sell $600m of semiconductors in Europe, 12 times the value of semiconductors flowing from Europe to Japan.

The Europeans are suspicious of the US-Japanese semiconductor trade pact, negotiated in July to stop Japanese manufacturers dumping semiconductors in the US. EEC countries have complained, under the terms of the General Agreement on Tariffs and Trade, that the pact also seeks to fix prices in Europe.

The precise effect of the pact in Europe, however, is less than clear. Mr Jim Beveridge of Dataquest says that prices have steadied in the European market because of the pact: 256K dynamic RAMs are now priced at $2.25-$2.35: without the pact, they would be below $2.

In contrast, Mr Neville Lyons, secretary general of the European Electronic Components Manufacturers Association (EECA), the European trade association, says that prices have fallen in Europe since the pact was signed.

The European industry, through the EECA, fears that Japanese chip producers stymed in the US, could redouble efforts to gain market share in Europe by undercutting prices of local producers. It is complaining that the Japanese are dumping into Europe some semiconductor products. Its main concern focuses on dynamic random access memories (Drams) and erasable programmable read-only memories (Eproms).

The European Commission, if it upholds the anti-dumping case, could impose punitive duties on imported Japanese semiconductors, as it has this year on photocopiers. To judge from previous anti-dumping cases, this might in turn precipitate a wave of inward investment by Japanese chip makers into Europe.

Mr Takao Negishi, director of the European office of the Electronic Industries Association of Japan, predicted in a speech in May that Japanese investment in Europe, which so far has been mainly in consumer electronics goods, could spread soon to electronic components and industrial electronics.

NEC's decision to launch a full production line for semiconductors in Scotland may be highly significant, because in the past other Japanese electronic companies have quickly followed after one has started making a specific product in Europe.

The longer-term health of the European semiconductor industry will depend in part on the success of a number of government-backed programmes under way in Europe, designed to promote research and development across the whole high technology field.

In July, ministers from 18 European countries approved a total of 62 joint development projects between European companies, worth about £1.4bn, under the Eureka programme. These are aimed at improving the competitiveness of Europe's high-technology industries by encouraging joint development of commercial products and services. Eureka has no direct funds, but many participating companies are receiving subsidies from their national governments.

However, the European Commission's Esprit programme, designed to promote European co-operation in information technology research, has run into greater problems, with some governments, particularly those of the UK and West Germany, reluctant to agree to the next tranche of money.

David Thomas

Semiconductors 3

Japan

Exports fall as demand weakens

JAPAN'S semiconductor industry is in deep trouble. Demand is weak, exports are declining, competition from Korea is increasing, and profitability is now a distant memory.

Sympathy, however, is not required. Japan's major chip makers are divisions of some of the largest companies in Japan. No matter how bad things get, these companies are well-equipped to weather the most severe storms. Further, most of the trouble they are in today has been of their own making.

Like textiles, steel and petrochemicals before them, Japan's chipmakers attacked their industry by investing in huge volume production lines. Regardless of demand forecasts, chipmakers kept on investing, and telling worried US competitors that they were merely keeping up with the new technology of the industry.

This argument was unravelled by the US Trade Representative and the US Department of Commerce, who determined that the excess capacity had only led to unfair dumping of Japanese chips in the US. After months of negotiations and with the aid of the Ministry for International Trade and Industry (Miti), the US won its point. As a result of a chip pact between the two countries, Japan has lifted its prices, and exports to the US are falling.

"If the agreement didn't exist, the US companies would be out of business," says Ms Carole Ryavec, vice president, Japanese Equity Research, Salomon Brothers Asia. "They are no longer sharing their overcapacity with the rest of the world."

The industry's investment over the past few years, indeed, has been staggering. In 1984, it spent about Y730bn, boosting its output by about 25 per cent to around Y3,000bn. But demand in 1985 did not grow at 25 per cent and prices slid accordingly. New investment continued in 1985 and 1986.

Plans for 1987 call for a sharp slowdown, with most companies cutting spending programmes in half. Even so, overcapacity within the industry is currently estimated at about 30 per cent, with little prospect of a decline.

Chip makers are reluctant to admit that they have over-invested in their industry. Certainly, their efforts are not conspiratorial. Each one views the other as a frightening competitor. NEC, for example, views Matsushita Electric as having spoiled things by ploughing into the market in such a big way in recent years. Matsushita, for its part, views the new, smaller competitors as the spoilers in the overall capacity picture.

A clue to the Japanese way of thinking is provided by Mr Hajimi Karatsu, technical adviser to Matsushita Electric, who says: "Americans asked me why Japanese manufacturers are so madly engaged in plant and equipment investment regardless of a depression or a slump in market conditions.

"I replied with an analogy: You cannot attack the newest F-15 fighters with Phantom fighters from the Vietnam War. That is why whenever new equipment is introduced, Japanese manufacturers know they may have to replace it soon and disregard short-term profit somewhat," he said.

Disregarding short-term profit somewhat may be something of a euphemism, however. Japan's major chipmakers, NEC, Toshiba, Hitachi, Matsushita Electric and Fujitsu, are all diversified companies which do not separate out their semiconductor sales or profits in their annual reports. Nonetheless, analysts in Tokyo unanimously believe that none of these companies has been making much, if any, money in semiconductors since 1984.

All the major electronics companies showed large drops in profits, some as large as 90 per cent, in the recent round of profits announcements. Most of this distress was caused by what is called En-daka in Japan, or the high yen.

The major electronics companies are also the major exporters. Exporters have been sacrificing margins, rather than volume, by keeping their price increases below the yen's appreciation against foreign currencies. This tactic is now showing through at the bottom line.

Also, it is not entirely working. Latest export statistics show volume declines in consumer electronics exports. Lower sales of electronic gadgets, the market in which Japan leads the world, means lower sales of semiconductors. Inventory to shipment ratios, which were down to 1.5 earlier this year, are now heading back up to 2 for linear IC's, a prime component for consumer electronics.

At the same time, South Korea is coming up fast behind Japan. US Commerce Department figures show that US imports of 256k Drams from Korea went from zero in January of this year to $532,000 in August. And this was the output from Samsung Electronics primarily. Behind Samsung is Goldstar and Hyundai, both committed to achieving success in the world market.

Nonetheless, none of this will put Japan out of business. Hitachi, for example, is sitting on total assets of $16bn, half of which is cash. Matsushita's cash mountain is more than $12bn—most of it is on deposit at the bank. The other majors have strong balance sheets as well.

The smaller makers, such as Oki Electric and Sharp, may find themselves even smaller players in semiconductors in future years, but no doubt they will work out their own method of survival through specialisation, tie-ups or production joint ventures.

Indeed, both Fujitsu and Toshiba have already plumped for joint-ventures or mergers with foreign companies to reduce the current pressure on profits. Fujitsu is buying 80 per cent of Fairchild of the US, while Toshiba and Motorola recently announced plans to build memory chips and microprocessors in Japan. Further, almost all the majors are increasing their offshore production.

A reflection of the long-term strength of the industry has recently shown up in the Tokyo stock market, where electronic stocks are now back in good favour. Since July, the electronics sector has risen 16 per cent. In early December, for example, Matsushita Electric hit a new annual high of Y1,950; Nec had hit its annual high in October.

The next year or two will be tough ones, but there is no doubt that Japan can emerge from the crisis in even better shape.

Carla Rapoport

Advances by Korea

Assembling printed circuit boards at Samsung Electronics, in South Korea. With the help of low labour costs and government financing, Korea is working to achieve a position of world dominance in semiconductor production, similar to that already achieved in ship building, construction, textiles and steel.
Together, industry and government are investing more than $1bn in semiconductor production facilities and R and D activities and already Korea has become a major supplier of advanced memory chips.

Japan—US trade pact

Watershed deal to monitor prices

THOSE WHO still believe in Japan Inc, Tokyo's alleged combine of bureaucratic, political, and business interests, have probably not considered the full implications of the Japan-US semiconductor pact.

In terms of Japan's trade with the rest of the world, the pact marks a watershed in trade policy. Some American chipmakers may see the deal as too little, too late. But to the Japanese, the deal is little short of revolutionary.

Previous trade agreements, largely in the form of quotas or anti-dumping duties, have lacked the open-ended nature of this pact. This agreement aims to monitor prices of all major integrated circuits, for all of Japan's export markets, during the life of the pact. It also carries a commitment from the Japanese side to increase its purchases of US chips — the first such commitment ever made by Japan.

The fact that the deal was signed at all is a tribute to the determination of the Ministry for International Trade and Industry (Miti), the government ministry perhaps most committed to easing the level of trade tension between Japan and the rest of the world. The semiconductor industry was actively against the pact, claiming that it violated free trade principles, as well as the General Agreement on Tariffs and Trade.

But not only did Miti force the industry into line, but it has vigorously enforced the agreement ever since. When exports exploded in July, as the agreement was about to be signed, Miti clamped down on export contracts in August and September in order to compensate. Some companys' exports dropped away to zero during those months. *And this has* come at a time when *profits* were already on the floor. Recently, US companies began to claim that Japan was circumventing the agreement by dumping chips in third country markets. Late in November, in response to that claim, Miti asked Japanese chip makers to raise the prices of chips they sell to South-east Asia and Europe. According to industry executives, prices went up by between 10 and 50 per cent, depending on the commodity.

At the time of the pact's signing, Miti executives admitted to one important reservation about their victory over the domestic chip makers. The commitment to increase US chipmaker's market share, they privately admitted, was next to impossible to enforce. Japan's chip consumers stretch right across the industrial spectrum. Most of them have always followed the policy of buy within the group first, from Japan second, and from foreigners last.

Chip consumers complain that Americans have not specialised in the consumer electronics areas, but are too weighted toward military and aerospace applications for Japan's needs. Further, Japanese companies complain openly about poorer standards at American factories.

Mr Hajime Karatsu, technical adviser to Matsushita Electric, the world's largest electronics company, wrote in a recent industry publication; "American engineers . . . always think in terms of black or white and yes or no. However, production activity is not so simple." In America, quality control was practised by quality control engineers. In Japan, it was followed by everyone in the factory, he said.

Right or wrong, imports of US chips by Japan have not budged since the agreement, languishing at about 11 per cent of the total market. Miti officials privately confess they fear that US sales in Japan will actually go down in the coming months, because of the slump in consumer electronics caused by the appreciation of the yen.

Further, Japanese companies are upset about the new sales promotion committee, *which* has been set up as part of the chip pact to promote sales of foreign chips in Japan. Industry executives say that Miti wants to promote purchase promotion, not sales promotion. That is, it wants the committee to aid its efforts to persuade more companies to buy overseas chips. Japanese companies thought the new committee would help foreign companies cope with distribution and marketing problems.

In addition, Miti wants Japanese companies to help to contribute to a Y500m ($3m) fund to get the foundation off the ground. And even though they will support it, Miti will run it. Industry executives believe that the foreign chip makers industry associations should run the organisation, not a Japanese government agency.

Another future sticking point between Miti and the domestic industry will be production capacity. Miti has already published guidelines on projected demand and capacity forecasts for the main i.c. products. This table, the first of its kind, calls for significant cuts in capacity, some of which are now being carried out.

Whether they will continue, whether the pact can continue to work and whether foreign chip makers will ever make a serious dent in the Japanese market — these are questions which Miti and the industry, not Japan Inc, will have to continue thrashing out.

Carla Rapoport

Semi-custom chips

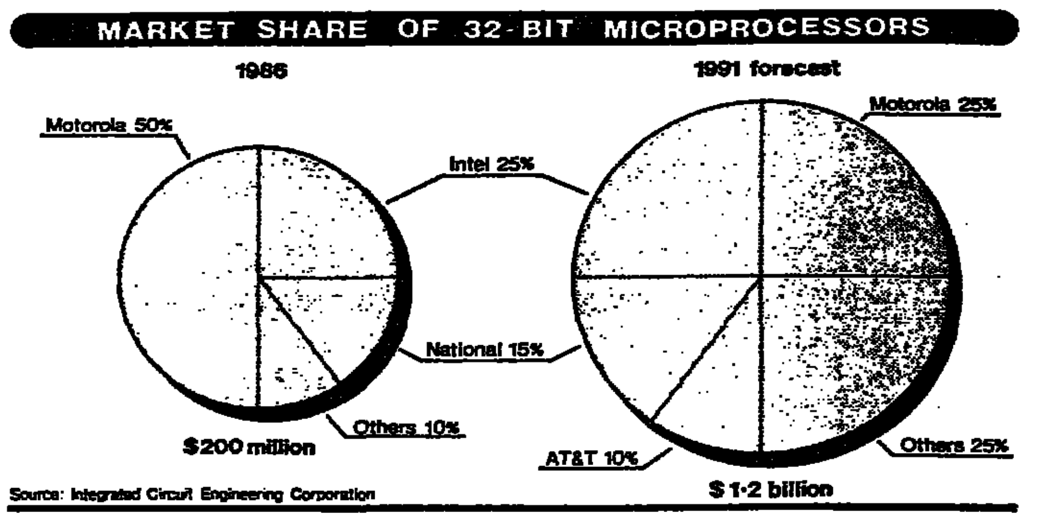
Growing and very competitive sector

CHIPS TAILORED to the needs of individual customers or special applications have become an important factor in the world semiconductor market over the past four year, with growth rates far exceeding those of standard, off-the-shelf, devices.

With at least 250 companies now offering these "application specific integrated circuits" (Asics), this sector, however, has become one of the most competitive in the semiconductor business. By some estimates, fewer than 20 of the present Asic producers will still be in the business in 10 years.

Two trends have fueled the growth of Asics — technology push and market pull. The automation of chip design, using sophisticated computer-aided design systems, has made it possible to design special purpose chips for individual applications quickly, and relatively cheaply.

Product life cycles of electronic equipment are getting shorter, creating pressure for faster design cycles. "Time to market" has become a critical factor in the financial success of a new electronic product, whether it be a personal computer, a camera or a telephone exchange.



Source: Integrated Circuit Engineering Corporation

Another important trend that is boosting sales of Asics is the need to minimise the number of chips used to build computers and other electronic equipment. Fewer chips means lower assembly costs, lower inventory costs and higher reliability. Asics can be used to combine the functions of several chips on a customised super-chip.

The emergence of three distinct categories of Asics is having a significant impact upon the way new electronic products are developed. Equipment makers used to "breadboard" a new system, using hundreds of logic and memory chips. Today, many of the logic chips typically will be replaced by a programmable logic device (PLD) that can be configured, and if necessary reconfigured, in a matter of hours until the prototype equipment functions properly. PLDs are often also used in first generation production systems.

Once manufacturing volume increases, equipment makers may turn to gate arrays, the most widely used and cheapest form of Asics, to replace more discrete logic.

Gate arrays are essentially arrays of thousands of logic functions that can be connected in custom patterns for different applications. They are often called "glue" chips because they are used to "mop up and glue together" the sundry electronic functions that surround, for example, a microprocessor in a personal computer.

To introduce new features and further to reduce chip count, manufacturers often turn to standard cell chips that can combine the functions of dozens of complex chips on a single super-chip. Often called "system chips," these devices become, in effect, a system on a chip.

Standard cell chips incorporate pre-designed circuit functions that can be selected from a chip vendor's "library" of cells. Increasingly, the individual cells are becoming major circuit blocks such as microprocessors.

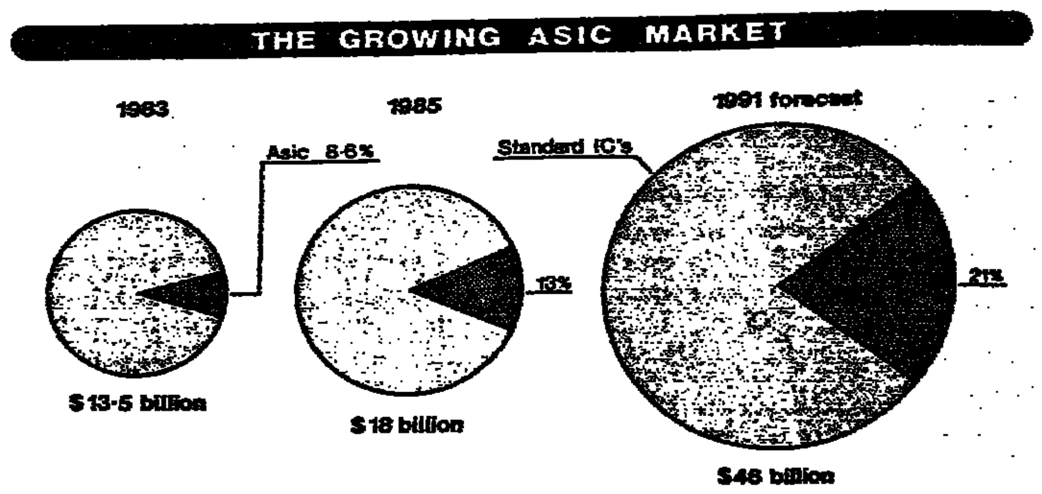
A good example of the evolution of an electronic system product through the use of Asics is the personal computer. Early models of personal computers produced by companies such as Apple computer and IBM contained boards packed with hundreds of chips. Today, the main functions of a personal computer are available on sets of as few as five Asics.

Perhaps the most important impact of Asics on the electronics industry however, has been fundamentally to change the relationships between chip suppliers and their customers. With more and more of the functions of an electronic system being integrated on to fewer chips, and those chips being customised to meet the needs of individual applications, chip designers and system designers must work closely in tandem. Chipmakers must disclose many of the secrets of their trade, while system designers must trust the chip makers with the proprietary secrets of their unannounced new products.

The need for such close working relationships has been an important factor in the information of dozens of "alliances" between semiconductor and electronics companies, particularly in the US. National Semiconductor, a leading US Asic manufacturer, for example, has formed an alliance with Xerox, the office equipment maker. National sees this and similar partnerships, which it is in the process of negotiating, as a means for US chip makers to combat competition from Japan.

"We are synthesising the vertically-integrated structure of the Japanese electronics companies," says Mr Fred Horne, vice-president for customer specific products at National. By including Xerox in its strategic product plans for Asics, National had been able to respond much better to its customers' needs. "The power of this partnership is awesome. It has exceeded our wildest expectations."

While closer customer-supplier relationships provide companies such as National with big advantages in the Asic market, they have not, as some had predicted, provided US and European Asic vendors with protection from Japanese competition, particularly in the market for gate arrays.



Source: Integrated Circuit Engineering Corporation

Over the past year, the gate array market has taken on many of the characteristics of a "commodity" chip business, with prices falling rapidly and international competition fierce. According to US gate array manufacturers, the average price per gate has fallen from about 1 cent to as little as one-tenth of a cent over the past 18 months.

Japanese manufacturers now hold a big share of the gate array market, with Fujitsu leading the world as the largest manufacturer.

World gate array sales are estimated to total $1.2bn this year. Integrated Circuit Engineering, a US market research firm, projects an annual growth rate of 37 per cent, bringing the gate array market to a value of $3bn by 1991.

In contrast, the market for "standard cell" Asics is dominated by US manufacturers and US consumption accounts for 94 per cent of world production. Market analysts predict, however, that standard cell sales will grow from a present level of about $500m to more than $2bn over the next three years and that they will be increasingly adopted for use in Europe and Japan.

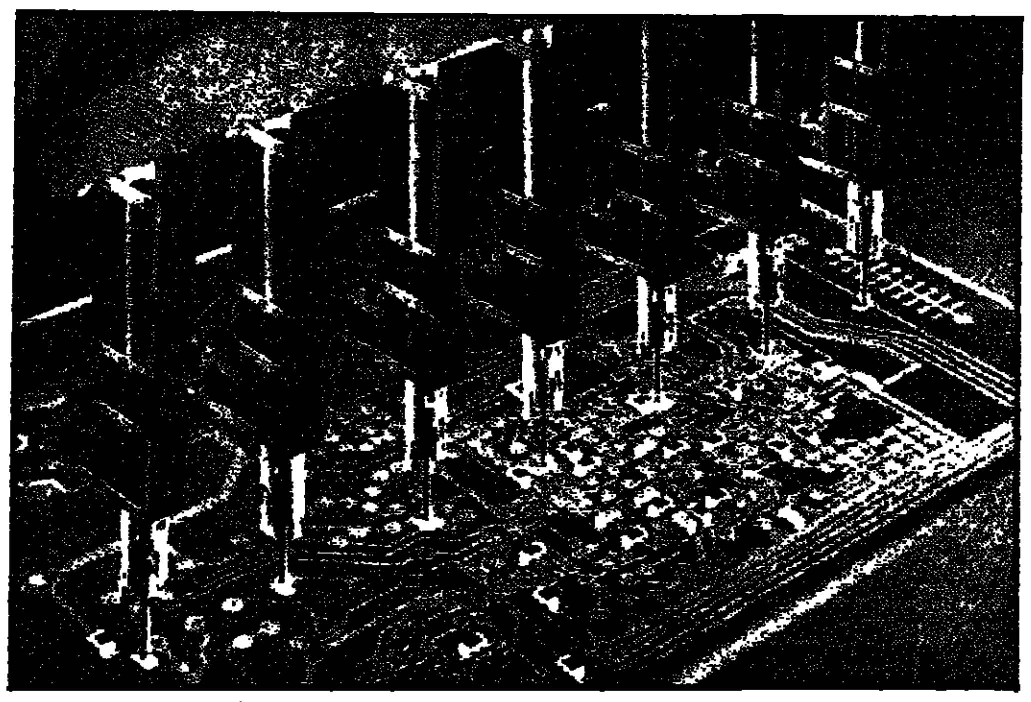
US manufacturers have an almost exclusive hold on the latest Asic technology for programmable logic devices. Dataquest, the US market research firm, predicts that PLD sales will grow from the present level of about $250m to more than $1bn by 1990.

A unique feature of PLDs is that they can be configured for particular applications by the user. The latest types use programmable memory technology to enable users quickly to program and, if necessary, reprogram a chip to perform a variety of logic functions.

The most advanced forms of PLDs can be programmed electrically. This opens up the possibility of reconfiguring an electronic system to perform new functions, or, in effect, teaching an old system new tricks.

Although widespread use of reprogrammable chips is probably some years off, it is clear that the emergence of this new variety of Asics, these chips could force fundamental changes in electronic system design.

Louise Kehoe



Above: Automated machinery for mounting chips on to circuit boards. Right: Plate image of a single layer of a chip

Silicon wafers which are cut into more than 100 computer memory chips for use in IBM processors

Arrival of the 32-bit chip

A NEW generation of microprocessor chips is quickly transforming semiconductor industry hyperbole into hard fact. For years, chip makers have boasted that a tiny piece of silicon can replace a roomfull of computers. Today, they are not exaggerating.

Computers built round these 32-bit microprocessors can easily outpace the "mainframe" systems that sit in computer rooms. And a single 32-bit computer circuit board costing about $1,000 rivals the performance of minicomputers selling for more than $150,000.

The emergence of the 32-bit microprocessor wipes out the traditional distinctions between "microcomputers," "minicomputers" and "mainframe computers" by raising the performance of a "micro" computer to that previously associated with larger computer types.

Like earlier generations of microprocessors, the new chips are the "brains" that control the functions of a computer. The power of the 32-bit microprocessor comes from its ability to move and manipulate information 32-bits at a time. Earlier microprocessors, such as those used in most personal computers, process information in 8-bit or 16-bit chunks.

"All levels of the computer industry are now directly competitive and can offer products of comparable performances," points out Stephen E. Yoken, director of technology research for L. F. Rothschild, Unterberg Towbin, a New York investment bank. Competition in the computer industry will rise "to a magnitude never before experienced," he forecasts.

The market for 32-bit microprocessors is currently small. Sales this year are expected to total about $15m. Sales of the peripheral parts that work alongside the core microprocessor chips bring the size of the market to about $200m. But analysts predict that by 1990 these high end micros will account for a major share of the total microprocessor business with sales exceeding $200m. If the market for peripheral circuits, software and development systems is added in, the 32-bit microprocessor market looks like a $1bn business by the end of the decade.

Competition between the vendors of 32-bit microprocessors is intense. Currently three US semiconductor manufacturers lead the field: National Semiconductor, the first company to launch a 32-bit micro, which currently holds about 15 per cent of the market; Motorola, the leader with 50 per cent; and Intel, which entered the market last year, and holds 25 per cent.

Current market share figures are less important however than the rate at which each microprocessor producer wins new customers. Once a computer manufacturer commits to designing a particular 32-bit microprocessor into his next generation product, the chip maker can be assured of future sales.

Among the earliest applications of 32-bit microprocessors are computer systems that challenge Digital Equipment Corporation and International Business Machines in the high performance scientific and engineering computer market.

An example of this type of system is the range of high-performance computers offered by Sequent, of Portland, Oregon. Built around the National Semiconductor 32032, the Sequent computers come with as many as 30 microprocessors and offer up to 21 Mips performance. A Mip is a million instructions per second. For comparison, a high end minicomputer typically operates at about 2 Mips.

Another emerging use of 32-bit microprocessors is in the area of artificial intelligence. Until recently developers of "expert systems" — computer programs designed to mimic human judgement—have been forced to use expensive special purpose computers because artificial intelligence programs require heavy computing power beyond the range of many machines. Now, 32-bit microprocessors will be able to meet these demands, and do so in a standard computer.

However office automation applications of 32-bit microprocessors are expected to represent the largest market for these super-chips within a few years. Already Compaq Computer, the US personal computer manufacturer, has launched a high performance PC based on Intel's 386 32-bit microprocessor, and several smaller PC makers have followed. Next year, IBM is expected to announce a 32-bit personal computer.

According to Compaq, its 32-bit personal computer can run existing programs two to three times faster than high-performance 16-bit personal computers such as IBM's PC AT.

Several manufacturers are offering 32-bit add-on boards for personal computers that instantly upgrade the performance of existing machines.

In the factory, the 32-bit microprocessor is being used in robots, for example to create machine vision.

Louise Kehoe

Obituary/Serge Lifar

Clement Crisp

The death occurred in Lausanne on Tuesday of Serge Lifar. Born in Kiev in 1905, the young Serge Lifar became a pupil at Bronislava Nijinska's ballet school in his native city, but seized the opportunity in 1923 to come to the West when a group of Nijinska's young male pupils were being recruited for the Diaghilev Ballet Russe. Lifar's enthusiasm for dancing, his exceptional physical allure, soon caught Diaghilev's attention. The almost untutored young man was entrusted to Maestro Cecchetti, and within two seasons his abilities had been so polished that he was recognised as the new male star of the Ballet Russe. A series of roles — which included Balanchine's *Apollo* and *Prodigal Son* — fixed the image of the beautiful young hero of the latter seasons of the Diaghilev enterprise.

In 1929 Lifar made his first choreographic essay with a new staging of *Renard* for the Ballet Russe, but in that year Diaghilev died and the Ballet Russe disbanded. Lifar was invited to replace the indisposed Balanchine as choreographer of *The Creatures of Prometheus* at the Paris Opera, and he was subsequently and swiftly to be named *danseur étoile* and *maître de ballet* at the Opéra, positions he would hold with blazing determination for the next quarter century.

Lifar devoted his immense energies to the company, reorganising teaching, giving it a new repertory (he composed over 50 ballets for the Opéra troupe, as well as many more for other ensembles) and a new dignity, so that ballet found a popularity once again with the Parisian public and critics.

Inevitably Lifar featured as star in many of his own creations—works as diverse as *Alexandre le Grand*, *Icare*, *Joan de Zarissa*—but he also nurtured generations of exceptional ballerinas and danseurs. He shaped the career of Yvette Chauviré, supreme exponent of the French school; he invited Olga Spessivtseva and Marina Semyonova as guests at the Opéra during the 1930s. Lifar's own performances were noted for their grandeur of plastique and dominating presence: as Icare, as Albrecht in *Giselle* (his entry in Act 2, with lilies cascading from his hands, cloak trailing behind, was the incarnation of Romanticism), as the Faun, he proposed memorable images to his public.

He was a dancer of greatness, and also a theorist and polemicist about dance, writing manifestos which spoke of the pre-eminence of movement, and even adding two further positions to the sacred canon of five positions of the feet.

His choreography was instantly recognisable in its insistance upon neo-classic forms invented by Lifar, and though many of his ballets have fallen from the repertory, his finest plotless achievement, *Suite en Blanc*, is still performed, as are such other major works as *Aubade*, *Les Mirages*, *Phèdre*, which still hold their audience. (One of his own favourites, *Dramma per musica*, has also not been preserved).

Lifar was a prolific author, with 20 books on various aspects of the dance to his name. He was, in every sense, a man devoted to, obsessed by, ballet. His farewell to dancing came in 1956 when he made his final appearance as Albrecht.

Two years later he left the Opéra — for the second time. His first departure came in 1944 when, as a result of post-Liberation hysteria, he was accused of collaboration with the German forces in Paris. The facts were other. Lifar was determined to protect the interests of the ballet and keep this standard of French culture flying during the darkest days. He was prepared, when necessary, to sup with the Devil, using the longest of spoons and his native wit, in order to help his dancers (and he protected certain Jewish dancers from persecution by the Nazis). Nevertheless he was suspended from the Opéra in 1944. He at once joined the Nouveau Ballet de Monte Carlo, and within two years was back at the Paris Opéra, where he remained until 1958. In that year he resigned, and subsequently worked free-lance as choreographer, and laboured tirelessly for the dance.

Lifar's was a massive personality. His enthusiasm for ballet transcended everything else for him. He seemed powerless not to become involved with the dance, and his delight in his art, his abiding youthfulness, made him the most engaging of personalities. His temperament was flamboyant, and he could sketch in moments from his favourite roles with electric vitality. I was fortunate to have seen him recall fragments of Apollo and The Prodigal Son, as well as the naughty Shop Assistant in *Boutique Fantasque* (one of his earliest Diaghilev roles) which lived more vividly across a dinner table than in any theatrical performance I have seen. His interpretations linger in the memory still by their extraordinary distinction of line and by the fierce light that came from this astounding presence in the theatre. Ballet in France owes everything to him. The present excellence of the Paris Opéra Ballet under Rudolf Nureyev has its roots in Lifars's dedication to a company which he brought to greatness.

Serge Lifar in "Icare"

Alastair Muir

Nimmy March, Tina Marian, Susan Tracy and Penelope Freeman

Heresies/The Pit

Michael Coveney

Women in last year's RSC Stratford company banded together first in a spirit of opposition to the male hierarchy and second in an attempt to create a work together, supported by that hierarchy. The result is a three-hour intriguing poetic cabaret in the bowels of the Barbican, scripted by Deborah Levy and directed by Susan Todd.

The length is important as a means of stating how the piece came about; the show emerges sideways, almost, the form circumnavigating the various emotional stories that are all hinged on the broken relationship between a powerful male modern architect, Pimm, and a withering female Eastern European composer, Leah.

Strength excludes humanity in the male psyche, the play says: Pimm shouts at women and demands custody of the child borne to him by a Hungarian refugee (Caroline Goodall); Pimm's lover, Mayonnaise the courtesan, is married to a cold and lonely businessman who, like Pimm, is unable to call up a return on the love he's invested.

Mayonnaise, played with the sultry suppleness of Anitra Morris in *Nine* by an ecstatically limber Susan Tracy, is a fascinating product of the method, falling in with three "witches"—a beautician (Tina Marian), a fortune teller (Nimmy March, whom I remember warmly from a student musical production), and a hairdresser (Penelope Freeman)—to take revenge on the architect by returning the baby to its mother while simultaneously coldly dismissing her own mother, an old bibulous vaudevillian (Miriam Karlin), who has tracked her down to London.

With its libations, lurking furies, family bondings and parental disappointments, the piece takes on the shadow of a Greek tragedy, but only the shadow. It remains a tantalising voyage around many themes, several acted out with an intensity and conviction missing from the majority of London RSC shows this year. Pimm's timid housekeeper (Ann Mitchell) is brought back to life by the arrival of her drained and victimised Belfast sister (Stella Gonet); Leah (Susan Colverd) re-enacts her meeting on a train with the sturdy educationalist Violet (Paola Dionisotti).

These are satisfying unravellings of such stark opening images as Miss Mitchell stuck in her bedroom of Catholic icons and a triptych; or Miss Dionisotti treading grapes for domestic consumption while Miss Tracy determines to leave her financier spouse because he smells of (not like) guinea pig.

Steel girders, an underlit modernistic ramp and a beautiful glass aquarium containing fish spiked on steel pins—the designer is Iona McLeish—convey the architect's world so suavely inhabited by Roger Allam with a designer pony tail; while the centre of Leah's meditative post-Revolutionary world and dismay exists in the plangent score of Ilona Sekacz climaxing in a full dress onstage sextet that washes tumultuously over cast and audiences alike.

Carnegie Hall reopens

It seems hard to believe that in 1960 Carnegie Hall in New York was threatened with demolition — to make way for a 44-storey red skyscraper. A group of concerned people, spiritedly led by Isaac Stern, got together to save it, and it was bought by the city. The New York Philharmonic had moved to Philharmonic (now called Avery Fisher) Hall, at Lincoln Center — a joyless, ugly place, where the orchestra plays four times a week. Carnegie has gone from strength to strength, housing a parade of visiting orchestras, concert operas, and fine recitalists. The Philadelphia, Boston, Cleveland, and Chicago orchestras play there regularly. Vienna, Berlin, the Concertgebouw, and all the other American orchestras are frequent visitors.

The hall opened in 1891; Walter Damrosch and Tchaikovsky conducted. It holds 2,784 people. The shape, roughly, is a cube rounded by two curving rows of boxes and two balconies. On the fourth side, a lofty arch opens onto the orchestra platform. The acoustics were excellent. Even though the place is big, one can sit in the last row (W) of the stalls and feel close to a lieder singer on the stage.

In mid-May this year the hall closed for renovation. Many things needed improvement or restoration. A widening of 57th St had narrowed an already cramped foyer; one entered up precipitous steps into a pokey, crowded space, with only two box-office windows, and then negotiated more precipitous steps to get into the auditorium. The arch over the orchestra had been half-filled in with a tatty curtain, and hangings cut short the elegant pilasters and cornice behind the orchestra.

All this has been righted. The foyer has been reconstructed. There are now six box-office windows. One enters at street level, and then easy staircases lead into the hall. The junk over the orchestra platform has been cleared away, and W. B. Tuthill's admirable architecture flows once again, holding orchestra and audience in a single room. There are new, very comfortable, seats, and a new mahogany floor. The plasterwork has been restored. The hall has been repainted in "good taste" cream shades, with gilded details. (In Victorian times, it seems, it had a warm rose glow.) Carnegie Hall reopened last Monday with a gala concert that lasted for more than four hours.

First, the National Anthem, led by a vocal octet that included Leontyne Price, Roberta Peters, Wanda Toscanini Horowitz, Mayor Koch (hand on heart), Sherrill Milnes, and Sandford Weill, the largest contributor to the cost, reported as \$50m, of the restoration. Then there was an unannounced surprise. Horowitz appeared and, with quirky, delicate art, played Chopin's C-sharp minor Waltz and Fantaisie-Impromptu. Leonard Bernstein conducted an *Opening Prayer*, for orchestra and baritone (Kurt Ollmann), Hebrew words, that he had composed for the occasion. Then the New York Philharmonic, conducted by Zubin Mehta, played a programme of German music, broken by a group of songs from Frank Sinatra.

Yo-Yo Ma played the finale of Haydn's C-major Cello Concerto. Marilyn Horne, with Isaac Stern as violin obbligato, sang "Erbarme dich." The *Meistersinger* prelude closed this first segment. Frank Sinatra, grossly over-amplified, was the second. The third consisted of the finale of Mahler's Second Symphony, followed by flowing champagne.

Galas are seldom the occasion for serious criticism. And after this one one can't venture a secure opinion about the acoustics of the reconstructed hall, or even about its appearance: television was there, and a video was being made. The banks of lights, filled with fan-cooled lanterns, produced a mechanical roar that filled Mahler's silences, drowned Horowitz's soft passages, and draped everything in a film of sonic filth.

Yet it seemed clear enough that the acoustics *are* altered, and possibly in a way to cause concern. (Covent Garden, beware!) The rake of the floor has been modified, "to improve sightlines in the rear of the auditorium." The stage has been reduced in size, "to help improve the acoustics." The Carnegie stage was already rather too small for large chorus-and-orchestra works. For this concert, the Philharmonic was laid out in a long tight, narrow band across the front, to leave room for the Mahler chorus behind it. The *Meistersinger* prelude sounded incoherent and unfocused: strings clear; woodwinds clear, but feeble; brasses all too clear (at times, and the overture sounded like a tuba concerto)—but no blend. One could tune in to any particular section of the orchestra, but not hear the work as a whole.

So an account of the acoustics must wait. Also an account of the appearance, for the added television lights were mostly yellow, and they lent a jaundiced aspect to the repainted hall. The architect for the job was James Polshek. His restorative works are fine, his innovations more questionable.

Nothing much could be done about the inadequacy of the public spaces. The corridors are still narrow. The enlarged foyer is still tiny. The little café (two barmen and one coffee pourer to serve an audience of nearly three thousand) is so far unaltered. No bookshop, no record shop, no restaurant, not even a sandwich bar has been added. But New Yorkers expect concertgoing to be uncomfortable, a bit spartan. Only foreigners like me complain. What matters most is the music. I'll report again when I've heard more music, but hum-free, in the renovated hall.

Andrew Porter

Art & Design at Kingston

The Wimbledon-Kingston imbroglio, about which I wrote last week, requires some further clarification. The National Advisory Body for Higher Education had proposed that the Wimbledon School of Art should merge with the Kingston Polytechnic which, in its Faculty of Art and Design, had long ago absorbed what was the old Kingston School of Art. The proposal has now been withdrawn, so I understand, pending final consideration by the Minister. But in arguing with some vigour the particular case for Wimbledon's continuing in its present state as an independent school of art, and making the general case against any further rationalisation of art and design education within the polytechnics, I may have failed to make clear my sympathy for art and design at Kingston.

I withdraw from neither the particular nor the general position, but it is no more than fair to Kingston to point out that over nearly 20 years of economic stringency, its Faculty of Art and Design, like so many others in the same circumstance, has continued to train students in all its departments to an extraordinarily high level of attainment. The point bears repetition that the Government's new-found enthusiasm for Design is no less welcome for coming late. Yet at Kingston, to take only one example, the school of Fashion has been working in the closest possible way with the related industries throughout Europe for years.

I said too that in any polytechnic much depends, for good or ill, upon the attitude of the directorate towards its faculty of art. At Kingston the present director is known to be strong in his support, not only for the schools of fashion and design which the NAB specifically exempts from its financial constraints, but especially for Fine Art. Certainly Fine Art at Kingston was affected by the cut of 10 per cent in resources which the NAB required of the unprotected courses and departments, but is was not alone in suffering.

Far from acceding in any knowing run-down in Fine Art, Kingston's present intention is to increase its numbers again, albeit modestly, in the coming year. The figure I gave of an unviable intake of 18 was indeed put forward by the NAB but was quickly argued out of court by Kingston itself. The true figures for Fine Art in 1986 were 36 candidates accepted from the 118 who applied.

The proposal for the merger with Wimbledon was none of Kingston's doing, but it found itself in the invidious position, had it been forced through, of having to make the best of it. I stand firm in my belief that any such merger was misconceived. Wimbledon should be left as the excellent school it is, and so too the Faculty of Art and Design at Kingston, which it is for the Polytechnic to develop as it may from within.

Our art schools are important, now more than ever, not just for hard economic reasons but for the deeper cultural health of our society. Even as they are now, polytechnicked and independent alike, beset with difficulties after decades of meanness, they do better by us by far than we deserve. It is time the politicking and interference stopped and our art school, were left secure tot get on with their proper and honourable work.

William Packer

Athena Art Award short list

Eight artists have made the short list of the Athena Art Award 1987, the most profitable arts prize in the UK, with £25,000 for the winner. They are John Hoyland, Basil Beattie, Stephen Farthing, Adam Gray, Eileen Lawrence, Alan Miller, Lawrence Preece and Pam Skelton, who each receive £1,000.

This is the second year of the Athena Award and the 2,000 entries showed a marked improvement on year one, with many more leading artists risking their reputations. Over 150 of the entries will go on show at the Barbican from February 10, when the winner will be announced.

Messiah/St John's

Max Loppert

The choir and orchestra with the corporate name of The Sixteen are this week giving at Smith Square four performances of *Messiah*. (A numerical puzzle: why Sixteen? The choir was last night 18-strong, and so was the orchestra.)

The first showing was impressive — carefully prepared, balanced, and focused, a properly period-style oratorio reading in matters of instrumental and vocal timbre, but without the self-consciously polished finish that has sometimes characterised the post-Crystal Palace view of this deathless masterpiece. At the same time, it was possible to detect on Tuesday a slight sense of inhibition—caused perhaps by the presence of recording-company microphones (the concert was being put on tape for future issue). The solo singers seemed required to trip very daintily to their positions; pauses between numbers were mostly just that bit too much prolonged.

In the remaining three *Messiahs* the conductor Harry Christophers will no doubt urge his performers to respond ever more freely to the work's graphic vividness of dramatic inspiration. Without such inspiration the work would (in Winton Dean's words) "assuredly not have ridden so buoyantly down the centuries;" and even in this rather cautious unfolding it seemed buoyant still (it is a sad soul who has lost the power of being touched to the core by the instrumental opening and first vocal phrase of "Comfort ye!"). And though the gentle temper of the direction tended to limit many of the big strokes of dramatic imagination, the beauty of Handel's simple gestures was preserved in solo and choral singing of shining freshness.

The tenor—smooth but also spirited in "Comfort ye!" rousing in "Thou shalt break them"—was Maldwyn Davies. Michael George's strong full bass needed only a dash more showmanship in "The trumpet shall sound." The alto music was divided between David James's somewhat hooty but affecting counter-tenor and Catherine Denley's grave, steady mezzo ("He was despised" lies in her very best octave). But the star of the evening was Lynne Dawson, who on this showing must be counted this country's outstanding Early Music soprano. The tone is pure but not mimsy; the unforced radiance of manner which she brought to "I know that my Redeemer liveth" made the air the high point of the evening.

ECO/Elizabeth Hall

Dominic Gill

Tuesday's English Chamber Orchestra concert was something of a gala affair: a part of the "Portugal 600" festival co-ordinated by the Anglo-Portuguese Foundation, sponsored by Wiggins Teape and Eagle Star, and attended by the Prince of Wales and the Portuguese Ambassador. The quality of the music-making was unfortunately more prosaic. The name of the Finnish conductor: Jukka-Pekka Saraste, who directed the evening, is sometimes confused with that of his gifted younger compatriot Esa-Pekka Salonen; but there the similarities end.

Mr Saraste directed the ECO in two of the most stubbornly prosaic performances of a Mozart or a Beethoven symphony that I have heard them give in many a year. The Haffner sounded like an adequate play-through, with ragged edges—a slightly less interesting performance, if anything, than the ECO are capable of giving without a conductor at all. Beethoven's Fourth was as vigorous and brightly-lit as it was crude and uninflected—the great adagio was a travesty: no more than a commentary at several removes from the music, a superficial *catalogue raisonné*.

The Portuguese element of the evening was provided, by virtue of her nationality, by Maria Joao Pires, the soloist in Chopin's F minor piano concerto. I much admired Miss Pires's solo recital earlier this year; but last night she rarely approached that form. The sound was hard, nervous and uneven; the fingers were frequently uncertain. I am sure that the performance was uncharacteristic and in other circumstances might have had quite another, more eloquent, bloom.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

December 12–18

Exhibitions

WEST GERMANY

Tübingen, Kunsthalle Philosophenweg 76: Toulouse-Lautrec. A retrospective of 130 paintings and picture studies by Henri de Toulouse-Lautrec (1864-1901). Ends March 15.

Münster, Westfälisches Landesmuseum, Domplatz 10: August Macke: To mark the 100th anniversary of his birthday, the museum, helped by the Macke archive and sponsored by the estate of Northrhein Westphalia, is displaying 160 paintings, 130 pictures, 70 watercolours and documents. Macke, born in Meschede (Westphalia), studied in Düsseldorf and Berlin under Lovis Corinth. He was responsible for a new art form before the First World War. In the spring of 1914, he went with Paul Klee and Louis Moilliet to Tunis. In the same year, he was sent to the front in France, and died in action in Champagne. Ends Feb 2.

BRUSSELS

Ingres and Delacroix – Drawings and Watercolours – Palais des Beaux Arts. Ends Dec 21.

ITALY

Venice: Palazzo Ducale: China in Venice: Chinese Civilisation from the Han Dynasty to Marco Polo (25-1279 AD): 180 objects, including silks, brocades, jewellery, terracotta figures, glass and porcelain lent by the Peking Museum. Many result from recent excavation, and most have never been out of China. The exhibition covers the main period of Chinese art, and the objects found in tombs, buried with the owner for his use in the hereafter, shed a fascinating light on life in the period. Ends March 1987.

PARIS

Esteve: After important exhibitions in Germany, Switzerland and Scandinavia, Paris in turn honours the abstract French artist born in 1904. The retrospective consists of 116 paintings, 50 watercolours, nearly as many drawings, some collages and tapestries and shows Esteve's development. Influenced at first by Cubism and fascinated by Cezanne, he continues obstinately on his own solitary road until he achieves an equilibrium between a rigorous composition and an explosion of colours. Grand Palais, Closed Tue, Ends Jan 12 (4256 0924).

Francois Boucher: the 86 paintings and 25 drawings of his first major retrospective re-create the pastel-coloured world he peopled with voluptuous goddesses and shepherds. Premier Peintre du Roi, a favourite and friend of Madame de Pompadour. Boucher personified the lighthearted charm and seduction of the Louis XVth Period. His pastoral and mythological scenes reproduced by engravings, tapestries and on Sèvres porcelain spread the influence of French court art all over Europe. Grand Palais, closed Tue, Ends Jan 5th (4289 5410).

Maîtres Impressionistes et Modernes: Pissaro's Woman with Geese, a country scene shimmering in gentle sunlight, a well-structured Boudin, a surprisingly poetical Gauguin, two Picassos and a Bonnard, Marquets, Utrillos and a Gris form a counterpoint to an unusually rich collection of sculptures. The perfection of Maillol's small bronzes rejoices the eye, as do Lobo's harmonious feminine shapes and the large composition by Laurens with Cubist overtones. Daniel Malingue gallery, 26 Ave Matignon (4266 6033). Ends Dec 22.

VIENNA

Gold and Power – Spain in the new world: To mark the 500th anniversary of the discovery of the Americas, this huge exhibition of treasures from the Museum of America in Madrid tells the story of the Spanish conquest. The collection, seen for the first time outside Spain, includes ornaments and utensils of indigenous Americans, beautiful Mexican mother of pearl pictures of the blood-and-thunder of the conquest, records of Jesuit missions in Paraguay and stunning gold statues and jewellery from a land mythologised as El Dorado. Vienna is the first stop for this exhibition, which will later travel to Cologne and Budapest. Kunstlerhaus. Ends Jan 25.

NETHERLANDS

Amsterdam Historical Museum. A collection of 19th-century French drawings and watercolours providing a cross-section of the styles and themes of the period, from the veneration of the Napoleonic legend to exotic Orientalism and the Italian picturesque. Ends Jan 4.

NEW YORK

Metropolitan Museum: 90 paintings from the end of Van Gogh's life are the focus of this second of a two-part show of the prolific artist at Saint-Remy and Anvers. The Starry Night and Cypresses come from this period working first in an asylum in Saint-Remy and then in Auvers, where he committed suicide in July 1890. Ends March 22.

Whitney Museum: A retrospective of 168 of John Singer Sargent's paintings, watercolours and drawings provides the first major overview of the artist's work in 60 years, with many of his famous full-length portraits, and landscapes and informal drawings. Ends Jan 4.

CHICAGO

Chicago Historical Society: Louis Sullivan, a seminal figure in American architecture, is celebrated in an exhibit in the city he made architecturally famous with newly made models of his buildings along with drawings, sketches and building fragments emphasising his use of ornament. Ends Dec 31.

Art Institute: The art of Italian Renaissance armourers, with suits embossed with Greek and Roman deities and fantastic creatures of the artists' imagination, is on display in a special exhibit of French king Henry II's armour borrowed from Hever Castle. Ends Mar 1.

TOKYO

El Greco: 50 oil paintings, part of the Matsukata collection. National Museum of Western Art, Ueno Park, one of Tokyo's few large parks. Several national museums and Tokyo's main concert hall (Tokyo Bunka Kaikan) are in the vicinity. A day's museum-hopping can be pleasantly divided by refreshment at one of the park restaurants. Ends Dec 14. Closed Mons.

Saleroom/Annalena McAfee

Silver tops £1m

An elaborate George II epergne (table centrepiece) was bought for £770,000 yesterday at Christie's sale of English and Continental silver. The epergne, by Paul de Lamerie, was bought on commission by a London dealer. Another epergne, this one made in Dublin in 1789 by Thomas Jones, was bought for £19,800 by the London dealer Armitage.

The same dealer paid £25,300 for a German silver-gilt mounted ruby glass pilgrim bottle, circa 1690. The bottle, by Tobias Baur of Augsburg, had been expected to fetch up to £8,000.

A fine George II coffee pot, chased with spiral flutes, scrolls and foliage, went for £23,100 to an anonymous buyer. The London dealer Armitage also led the bidding for a dozen George II fiddle and shell pattern forks and spoons, which went for £14,300. An anonymous buyer paid £16,500 for a George II inkstand. The set had been expected to fetch up to £8,000. The auction made a total of £1,174,833 with only seven per cent left unsold.

A rural Victorian painting, "The Gossips" by William Shayer Snr, handsomely exceeded its estimate of between £10,000 and £15,000 when it sold for £24,750 at Sotheby's yesterday. The buyer was the London dealer Williams and Son. The sale of Victorian Paintings made a total of £727,870 with 12.5 per cent bought in and produced some good prices.

"An October Day on a Midlands River" by Benjamin Williams Leader R.A. was bought for £23,100 by an anonymous collector. It had been expected to fetch between £8,000 and £12,000. Arthur Stocks' "Guy Fawkes Day," dated 1887 and depicting children with a traditional guy, made £18,700. The same price was paid for John Atkinson's Grimshaw's "Moonlight After Rain."

More than half the lots were left unsold in Christie's morning sale of Decorative Arts from 1880 to present day. Bidders were believed to have been reserving their interest for the Bugatti furniture and the glass in the afternoon sale.

The top lot in the morning auction, which made a total of £134,404, was a boat-shaped tureen designed by Henning Koppel. An anonymous buyer paid £22,000 for the tureen.

FINANCIAL TIMES

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A plan for the planners

ONE OF the most difficult problems for Western democracies is to reconcile the national need for big long-term investment projects with the objections of those who have to live near to them. As technology marches forward, the dilemma becomes more acute — motorways get longer and wider, industrial plant becomes more complex, and often more obnoxious, while voters become more assertive about the need for a decent unpolluted environment.

It is not surprising therefore that Britain's public planning procedures have been buckling under severe strain, and in some cases recently have seemed near to breaking down altogether, particularly when dealing with that most emotive of all planning issues, the siting of nuclear installations.

The Government has clearly become alarmed by the possibility that the four years needed for the planning inquiry into the proposed nuclear reactor at Sizewell in Suffolk could prove to have established a norm rather than just a record. The Government's response yesterday to the Environment Committee's recent report on planning appeals showed the anxiety, but perhaps unsurprisingly offered no sweeping solutions.

Pragmatic approach

It proposes, instead, to try to tighten procedures and speed enquiries by a large number of useful but relatively minor reforms. The Government is right to be worried that if the public debate on controversial planning issues is seen to be guillotined, outraged protestors will simply take to direct action, as they have at Greenham Common and some nuclear power station sites in West Germany.

For this reason it believes that local objectors should not be prevented entirely from discussing major issues of policy like the safety and economic advantages of nuclear power, along with more particular arguments about the siting.

On the other hand it suggests that the terms of reference for major planning inquiries should be more tightly drawn, so that inspectors will work within the framework of existing policy, and be encouraged to shut up objectors when they are wasting time or could more easily submit their case in writing. It also suggests a stricter timetable.

This pragmatic approach is all to the good, although some of the detail descends to the level of Whitehall farce — such as the plan to ask 25 inspectors to spend a year trying to find out whether word processors can save time. That is an excellent example of one of those general questions which have been settled elsewhere and should not take up the time of planning inspectors.

Not necessary

On the bigger question of how to balance the need for broad strategic discussion and legitimate local interest, "ministers will continue to consider . . .". But this issue will become more urgent if the Government decides to go ahead with the further four or five identical power stations which would be required to reap the full economic benefit of a revived nuclear power programme.

The nation cannot afford to spend four years and £20m every time it wants to build a new nuclear power station. Nor should it be necessary, even from the most extreme regard for local democracy. The major issues of safety, economic viability and need have been argued to the point of stupefaction in the 55 tons of evidence put to the Sizewell enquiry. To go over them again would waste not only time but a great deal of money. Sizewell is officially estimated to save the country £50m for every year of its existence.

If the economic benefits are as great as is claimed, a strong case can be made for sharing them more generously with residents who suffer the worry or financial penalty of living near a plant. Britain's utilities and developers have in the past been unimaginative about tackling the trade-off between public good and private inconvenience, and the planning process is not well geared to providing a remedy. As Electricite de France has found, a little local emollient can go a long way, and it could perhaps help to concentrate minds on the planning issues that really matter.

Lessons from Norway

THE LABOUR Government of Norway is belatedly moving to take suporting measures without which the 12 per cent crash devaluation carried out in May was bound to fail. Even so, Norway is in a race against time to restore its economy to health.

There are some obvious similarities with the situation in Britain, even though the parallel is far from complete. Both countries have been hurt by the collapse of oil prices; both have seen their exchange rates decline; and both are in a consumer boom.

The effect in Norway has been much stronger, especially upon the current external account. The Organisation for Economic Co-operation and Development forecast last summer that a surplus of $3bn in 1985 would turn into a deficit of the same size this year which would rise to $4½bn in 1987.

Reduced revenue from oil and gas has played havoc with the central government budget. This coincided with the consumer boom and with strong demand for the non-oil output of Norwegian industry.

It would be hard to imagine a more inflationary pattern. The inflation rate is likely to be around 7 per cent this year and the Norwegian Bankers' Federation has forecast that it will reach 9-10 per cent in 1987. That is a multiple of the average rate among Norway's main customers and is therefore liable to wipe out very soon the competitive advantage hoped for from the devaluation last May.

Largely abolished

Both political and institutional factors severely circumscribe the scope for economic policy making in Oslo. The Labour Government of Mrs Gro Brundtland is in a minority position: it had to rely upon cross floor help from supporters of the previous, anti-Socialist coalition to get the budget through. Moreover, the balance of power in the Norwegian parliament, the Storting, is held by two members representing the Progress Party which is pledged to oppose tax increases. Their presence adds to the inherent instability of government with a hung parliament.

On the institutional side, Norway has had difficulties in implementing an efficient system of credit control. Traditionally control was quantitative, rather than by the more market-oriented system of control by manipulating interest rates. The system of quantitative controls was largely abolished last year by Mrs Brundtland's Conservative predecessor, Mr Kaare Willoch who thereby, incidentally, accelerated the consumer boom.

But an efficient alternative has not yet been established, partly because of a speciality in the Norwegian tax system. For purposes of income tax, strictly defined, all interest charges paid are fully deductible from total personal and corporate income tax. It is an incentive to borrowing that Norway shares with the US, but in Norway's case it is accentuated by the much higher prevailing marginal tax rates.

Though it seeks to slow down the consumer boom by higher taxation of cars, drink and tobacco, the new budget only begins to address this issue of principle. Proposals to deal with it are, however foreshadowed for next year. A white paper is expected in the spring with plans to shift some of the emphasis of the tax system away from the taxation of "net income" — meaning income less interest paid and less other allowable deductions — to imposts that fall upon gross income, such as the social security charges.

Right direction

Given the unstable political equilibrium in the Storting and the difficulties always attendant upon such basic change, a transition will take time. Yet time is of the essence, at any rate unless the Organisation of Petroleum Exporting Countries does Norway a good turn by effectively pushing up the price of oil.

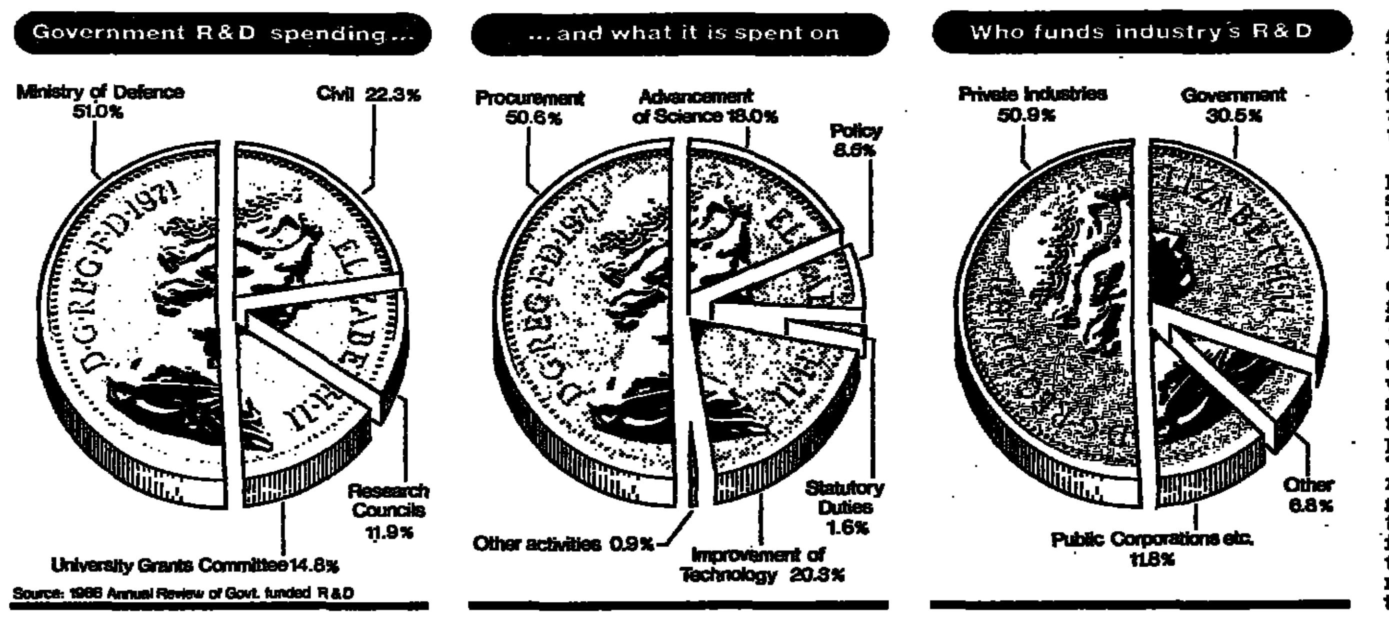
As against that hope, Norway faces the likelihood of increased inflationary pressures from a wage round due in the spring. The last round was quite difficult enough: the next one could be worse, not least because increased indirect taxes will encourage union militancy.

That said, the passage of the budget was a step in the right direction. It was honoured by the exchange markets which allowed the Norwegian currency to hold steady in spite of a small cut made to central bank lending rates. But the budget represents only one step to follow up the devaluation carried out last May. Unless others follow the krone is likely to remain exposed as long as oil and gas prices remain substantially below last year's levels. By itself, devaluation rarely settles anything.

UK SCIENCE AND INDUSTRY

A dangerously deep divide

By David Fishlock, Science Editor



Source: 1986 Annual Review of Govt. funded R&D

THE scrimmage for more generous funding of science in Britain has flared afresh with publication of the latest annual review of public expenditure on reasearch and development.

The contestants have been generally agreed that Britain is failing to spend enough to match its economic aspirations, at least if judged by the efforts of its most potent rivals.

Where they have failed to agree is just where Britain is weak and who is neglecting his duties as patron of the costly and risky activity of R and D. Is it central government, private industry, the City, or Mrs Margaret Thatcher's chief scientific adviser?

The latest statistics strongly suggest that it is not government but private industry—the manufacturing sector—which is parsimonious about funding science in Britain.*

Academic scientists — the kind who have won many Nobel prizes for Britain in the past —fervently believe that for quite trivial sums compared with the national R and D budget of £6.6bn their own extra needs could be satisfied. Some, such as Sir James Gowans, head of the Medical Research Council, are bewildered because what they see as an intellectually sound and convincing case is getting lost somewhere in the hurly-burly of Treasury efforts to reconcile pleas for special treatment with a policy of cutting costs.

More commercially minded voices believe that a far more profound change must be wrought in the management of science in Britain, if it is to contribute more efficiently to the national well-being, whether measured in terms of greater wealth or a more contented society.

The problem is rooted in the uneasy marriage of those inseparable partners "research" and "development." R and D, widely discussed as if they were Siamese twins. In fact, they are two quite separate phases in the evolution of any innovative product or process—as different as marketing and sales.

They may not even come in that order. The steam engine and penicillin are two examples where the product arrived before the research. In the long innovative chain from discovery to customer, research might be defined as building a bridge between the unknown and the market, and development as crossing that bridge.

Despite common usage of the abbreviation R and D, the Government in the mid-1960s decisively separated public funding of the two activities. Research, as administered and practised by five research councils, is funded mainly by the Science Vote, now some £600m a year. Its purpose is the support of scientific research in seats of learning; it comes under the aegis of the Department of Education and Science.

Development to tailor research more specifically to a purpose is funded by the "customer." Often the customer is a government department, such as defence, which nowadays finds it must spend about 20 per cent of a £9bn procurement programme on suporting R and

In the 1960s academic research was funded generously. Research budgets grew exponentially. Even though there were political warnings by the early-1970s that it could not go on for ever, the good times continued for years. Only in the 1980s has it dawned on many scientists that, to quote Mrs Shirley Williams, "the party is over."

This generous funding had the effect of exacerbating the split between R and D in Britain. Academics, flush with funds, were preoccupied with their own goals such as building internationally competitive research tools — multi-million pound synchrotrons, telescopes, spectrometers, etc — to extend the boundaries of knowledge.

It can be argued that some of the biggest scientific investments Britain has made postwar, for example in high-energy physics, controlled nuclear fusion and astronomy, have contributed little or nothing to the exchequer, and perhaps never will. Mr Kenneth Baker, Secretary for Education and Science, is understood to be musing over whether Britain should abandon "star-gazing."

Even in acadaemia itself, many were sceptical of a postwar investment by the Medical Research Council in the new science of molecular biology. The results, however, were Nobel prizes for the Cambridge discovery of the "double helix" in 1953. Now it is recognised that molecular biology underpins all commercial interest in biotechnology and new ventures such as Celltech, as well as affording the best hopes of tackling major unsolved disease problems, including Aids.

Celltech, a new biotechnology research company launched in 1980, was founded with City as well as government cash, to exploit the discoveries of this new science. It is held up by Sir James Gowan as an example of how investment in medical science can pay off handsomely. It has grown fast, and has briskly transferred molecular biology from his laboratories to its own in Slough. It has developed unique products and is currently repaying the Medical Research Council £50,000 a year in royalties. In only six years it already accounts for half of the council's income from royalties.

Unfortunately, Celltech is unique nationally. Certainly, it shows what is possible when industry and acadaemia collaborate efficiently. But, Mrs Thatcher would argue Britain urgently needs scores, even hundreds of Celltechs turning research council "R" into commercial "D."

The difficulties experienced by the research councils in extracting more cash from the Government to finance their growing portfolio of ideas has led British scientists to back their lobbyings with some original research into their own activities. Earlier this autumn they published two major studies endorsed by the Royal Society, demonstrating that Britain's main trading rivals spend proportionately more, per capita, on government support for science; and that British science is falling behind in its tally of original discoveries and inventions.

Prof. Sir David Phillips, the Oxford biophysicist who acts effectively as chief scientific adviser to Mr Baker, says these two reports together reinforce the contention "that the research base in Britain is growing weaker when compared to that of our major industrial competition."

But the vexing question remains: why haven't Britain's more research-conscious companies, small as well as big, been spotting many more potential winners in the £600m spread of research council science? Intellectual arrogance on the part of the research councils, says one British research director bluntly.

The problem is rooted in the uneasy marriage of those inseparable partners 'research' and 'development'

Other influential voices believe the problem has to be tackled from the other end. British industry has somehow to be made more aware of the opportunities for innovation it is missing, not least by being persuaded to spend more of its own cash on R and D.

These are the voices which the Prime Minister appears to be heeding.

The latest annual review of R and D in Britain, produced by the Cabinet Office, discloses for the first time just how low is spending by private industry itself on R and D—compared with the US or Japan. Industry funds little more than one-third of a total R and D bill of £6.6bn.

Nearly a third of industry's R and D is funded by central government, for example by the MoD, which has provided £1.7bn, spread among some 10,000 contractors and subcontractors, this year.

Mrs Margaret Thatcher has left her closest scientific aides in Whitehall in no doubt that she is frustrated that her industrial policies have not made British companies more competitive internationally. Their profits have risen substantially during her reign—but not their investment in R and D.

British companies are constantly beaten to the market with new mousetraps, new products and processes invented overseas, increasingly nowadays in Japan.

On the R and D front, her two closest aides are both engineers, not scientists. Her chief scientific adviser, Mr John Fairclough, seconded from IBM earlier this year, says with characteristic Yorkshire bluntness: "I do not believe that the answer is for government to pay for more of the R and D bill for industry."

Mr Fairclough says that, with a few enlightened exceptions such as ICI at one end of the spectrum and science-based start-ups like Celltech at the other, British companies are far too dependent on government.

He believes they are also discouraged by the City, which takes too short-term a view of manufacturing industry. This is the main lesson he has learned in compiling his first review of national R and D, he says.

Mr Fairclough believes Britain should have a substantial and secure core budget for academic science "and this it has." What needs urgent attention is not the core of science devoted to scholarship, but the way science is tackling the problems of the country, which often cross the boundaries of academic science.

Get this right, he argues, and science itself will be strengthened. "As it is applied more quickly it will also develop at an increasing pace."

Central to this approach is the need to get industry much more deeply involved with science, at its own expense, and not at the behest of a customer. He sees the advice of Acard, the Government's Advisory Council for Applied Research and Development, as crucial.

The chairman of Acard, Sir Francis Tombs, chairman of Rolls-Royce, is also an engineer. Mr Fairclough sits on Acard, along with chief scientists from Whitehall's main customers for goods and services from industry, such as the MoD, and top industrial research directors.

No single initiative or quick fix is expected to bring a dramatic reversal of industry's parsimony towards R and D. Rather, the two engineers are putting their faith in a number of initiatives, starting early next year.

One would be to compel private companies to disclose in some detail what they spend on R and D and how, as US companies must do already.

Another will focus on procurement policy and the £25bn government spends annually. There is a new technique invented in the MoD, called "cardinal point procurement," in which government scientists, instead of trying to mastermind the entire project, specify major projects only in terms of their "black boxes" and how they must mate and perform together. Industry is left to do the R and D to get that performance. Mr Fairclough wants to see cardinal point procurement used much more widely throughout Whitehall.

He also wants companies tendering for defence contracts to disclose how they propose to exploit the technology as "spin-off."

He is also investigating tax incentives, and with Treasury help is looking at how other countries provide tax relief on R and D.

But above all Mr Fairclough is putting his faith in a recent Acard study of exploitable areas of British science. This concluded that science has become so important to a nation's future that "some attempt must be made to structure support and achieve more effective exploitation of it."

Early next year he expects the government's blessing for a national forum, on neutral ground, that will bring industry, acadaemia and government together, perhaps under the chairmanship of one of Britain's most respected industrialists. It will shape national priorities and, when necessary, decide whether Britain should simply abandon some sector of research, such as astronomy.

Acard has just undertaken two further studies, the results of which will be of intense concern to this new forum. One is of defence R and D, exploring whether Britain gets value for money by spending 20 per cent of defence procurement on R and D. For comparison, ICI spends 14 per cent of sales revenues on pharmaceutical research, and gets high profits and exports in return.

The second Acard study examines the barriers to growth in Britain, and what else might be done to get industry spending more on R and D. But as John Fairclough sees it, "having a better mousetrap is really what it takes."

* 1986 Annual Review of Government Funded R and D. HMSO. £10.50.

Men and Matters

Long life after the senate

Life begins after 60 for the retiring US senator. Look, for example, at the new careers of Paul Laxalt of Nevada, and Russell B. Long of Louisiana, son of Huey Long, the Southern demagogue and former Louisiana state governor.

Next month, when Senator Long officially retires, he joins the board of the New York Stock Exchange, currently troubled by the Ivan Boesky insider trading scandal. Both Long and Laxalt have also been invited to join the international law firm of Finlay, Kumble, each at reputed salaries of around $1m.

Laxalt, 64, a close friend of President and Nancy Reagan, is still considered an outside candidate for the Presidency in 1988. But his chnces of securing the Republican nomination slipped after his chosen successor in Nevada lost in the mid-term elections. In recent weeks, he has been tipped to take a trouble-shooter role at the embattled White House.

Senator Long, one of the most experienced members of the current US Senate, was the long-time Democrat chairman of the powerful finance committee. Elected in 1948, Long, 68, recently dropped plans to run for state governor. He will be a useful addition to Finley, Kumble's government relation's department (Washington-speak for lobbying).

By all accounts, Finley, Kumble signed the two senators after a torrid competition with other law firms, not unlike the frequent fights for star players among British football clubs. Finley, Kumble, with more than 12 offices in the US and London, finally won after it promised to open a new office in Louisiana state for Senator Long—which gives a new twist to pork-barrel politics.

"Good grief—you're right, it is butter"

Independent Bowe

Colette Bowe, aged 40, director of information at the department of trade and industry, has had an eventful year.

In January she found herself unexpectedly under the gaze of the television cameras after the Labour MP, Tam Dalyell, named her in the House of Commons as the "leaker" of the solicitor general's letter on the Westland affair.

Now Bowe, an economist, is reversing roles by joining the media trade—actually the television industry. She is to be the next controller of information services at the Independent Broadcasting Authority in succession to Barbara Hosking, a former Downing Street press officer, who retires at the end of this month.

"I am leaving the Civil Service after 11 very happy years to take up this new challenge in a particularly exciting industry," Bowe says.

The IBA job was not advertised. I understand she was approached by headhunters.

She emerged unscathed from the Westland affair. It was accepted that she had acted on instructions, and with misgivings. Nevertheless, she probably concluded that a change of vista fro mthe Civil Service was not a bad idea.

Her political contacts will be valuable to the IBA at a time when the authority is trying to head off some of the more colourful suggestions of the Peacock broadcasting committee — such as the possibility of auctioning off TV franchises.

Cruise plot

Ever-conscious of the safety of the EEC's citizens, the European Commission announced yesterday that it would like to put the brakes on some of the community's more aggressive drivers.

The commission, which incidentally has its hq on what must be one of the most dangerous roads in Europe, is proposing a new EEC-wide speed limit of 120 km an hour. That is nearly 76 mph—and should mean fewer speeding fines for British drivers, still restricted to 70 mph on their own motorways.

But it would also mean that the Germans would have to surrender their long-cherished right to drive as fast as they like on motorways.

The French, who are not allowed to touch 130 kph, and the Italians, who can go up to 140 kph, would also see significant cuts in their speed limits—that is if member states can be persuaded to give the idea the green light.

The main idea, says the commission, is to reduce pollution, save energy, and reduce crashes. Fatal accidents are expected to be cut by 4 per cent for every one per cent reduction in average speeds.

All this might sound like anathema to Europe's performance car makers. But the commission maintains that high performance cars have been doing very well in markets with low speed limits such as the US.

Faith restored

The City is not usually the venue for great moments in pop music. But the Chaucer Theatre in the Sdgwick Centre is making history of sorts this week.

Adam Faith is making his first return to the live stage in 22 years singing, appropriately enough, "What do you want if you don't want money?" for three nights in a row.

Faith is something of a City man now, since launching his own financial company to manage the fortunes of entertainment stars, and he was persuaded to tread the boards again by the Square Mile Charitable Trust in its Christmas shsow. As befits a man who now straddles the pop and financial world, Faith was wearing a pin-striped jacket and jeans for the opening night.

Gas point

Some British Gas investors have been rewarded with very generous premiums, indeed.

A London woman—who prefers to remain anonymous—decided to take her first plunge on the stock market with the British Gas issue. She applied for 100 shares.

On Tuesday, through the post, came a letter of acceptance for 10,300 shares and a refund cheque for £44,850.

She has written to Sid to tell him about the mistake—but you know what the Christmas post is like. So until he sorts things out, she has deposited the cheque for £44,850 with her bank for safety.

Since British Gas has cashed her cheque for £50 and she cannot sell the 100 shares she undoubtedly owns, she deserves some compensation. Her prudence should ensure she gets it.

Observer

THE "FAR REACHING" package of reforms in the Common Agricultural Policy announced this week may or may not be better than nothing.

The reduction in the guaranteed price for beef is a step in the right direction. But the cuts in milk quotas, which made the headlines, belong to the same family of "solutions" as the notorious pre-war dumping of Brazilian coffee in the Atlantic, which formed the image of monopoly capitalism on which many of us were brought up. In the same category of deliberate waste of resources come plans—long familiar from US experience—to pay farmers to take land out of production, or to go away and retire.

Non-specialist economists and commentators have been far too tolerant of the dangerous idiocies of farm support prevailing throughout the world.

The semi-conscious rationalisation has been as follows. In nearly all Western countries, agriculture accounts for well under 10 per cent of the working population and in many of the main ones under 5 per cent. Therefore, the loss of economic efficiency involved in supporting the agricultural population in producing foodstuffs where they have no comparative advantage is relatively modest. So are the domestic income transfers. Both can be offset by a few years' normal economic growth.

Added to which are thoughts that agriculture has always been "different," that it commands strong political lobbies and that it plays on powerful yearnings for a lost rural paradise. Then there is the all-too-human difficulty that the general economist—or finance minister—finds in coming to grips with the byzantine details. Even among specialists, the expert on the butter mountain may be a bit shaky on sugar support. The authority on Japanese rice policies may not understand all the implications of "buying beef into intervention."

Several developments have, however, transformed agricultural policy from a modest economic aberration into a major international flash point.

First, the international interactions have multiplied. Agricultural protection in one country has increased the costs of similar protection in another. Once self-sufficiency in a product has been reached the supporting government must either accommodate rotting stocks or dump the surplus at a loss in international markets, thereby increasing the problems of other agricultural exporters. Even where self-sufficiency has not quite been reached as in Japan, the squeeze on imports has restricted markets for agricultural exporters.

The essence of what has happened is shown in the chart

Economic Viewpoint

Ever-present scandal of farm policies

By Samuel Brittan

which comes from a new and useful handbook, *The Political Economy of International Agricultural Policy Reform*, by Mr Geoff Miller of the Australian Department of Primary Industry. The main point is that world import demand for foodstuffs stopped growing in about 1980—to a modest extent because of a slowdown in general economic growth and the problems of less developed country debtors, but much more because of protectionist policies. Because domestic agricultural prices are supported, supply was slow to adapt and the resulting gap has led to enormous stockpiling. *Disposal of stocks* through export refunds now accounts for 34 per cent of CAP expenses.

The divergences between EEC domestic prices and prevailing *international ones* are illustrated in the table. The beef intervention price has been up to twice world levels; the butter and sugar prices three times, and wheat prices twice.

As a result, the cost of farm support can no longer be hidden by juggling with domestic prices. There is a large and growing budgetary cost obvious to the taxpayer, which is the second cause of crisis.

Third, farm policies are no longer working even on their own terms. It was always true that the benefits were concentrated on a minority of relatively well-off producers. Moreover, even when the policies did seem to work, the benefits were capitalised in high land values, rather than farm incomes. But these effects have gone into reverse. US land values have fallen by a half in recent years, and British by a quarter.

Even the most protectionist governments can no longer afford to buy the mass of produce at a profitable price, and farm revenues have been held back either by price increases being held below inflation—which is still not enough to stem world surpluses—or by quotas, schemes to take land out of production, and all the other follies of the restrictive mind.

There is a *fourth* problem specific to the EEC. When farm policies were national each country could support its own producers, but buy imports at world prices. Now there has to be a level of support prices geared to the least efficient producing countries; and imports have to be bought at inflated EEC prices, whether they come from fellow Community countries or the rest of the world, *in which case they are subject* to levy.

Fifth, the aesthetic and romantic aspects have been quite the opposite of what the agricultural lobbies said. The high price of cereals relative to other products has led to prairie farming, the destruction of hedgerows and the disappearance of the scenery and recreational value supposed to be asociated with a thriving countryside. An additional irritant in Britain is the Forestry Commission, which is a landowners' benefit society on which the Audit Commission has just made some strictures.

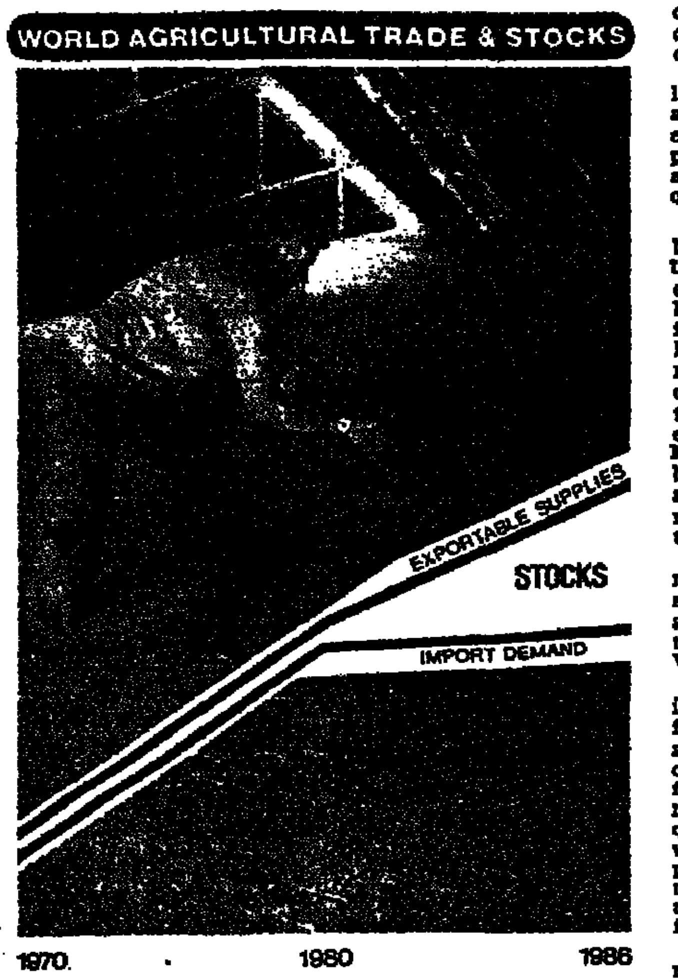
THE GREAT PRICE GAP

October 1986*

Commodity	EEC intervention price Ecu/t	Estimated representative world price Ecu/t
Wheat	179.44	80
Sugar (white)	541.8	166
Butter	3,006.7	952
Skim milk pwdr	1,800.9	714
Beef (adult bovines)	2,300-3,300	1,500

* One Ecu was US$1.05 (mid-October 1986).

WORLD AGRICULTURAL TRADE & STOCKS



Source: DEPT OF PRIMARY INDUSTRY, AUSTRALIA

The World Bank has attempted to quantify the cost of farm support. If all agricultural protection were removed from the industrial market economies, the farm sector would lose about $50bn per annum, but taxpayers and consumers would gain nearly $100bn, making a net gain of nearly $50bn.

A few almost random figures from the Australian study illustrate the size of the problem. World wheat prices have fallen by 45 per cent in the last decade while stocks have risen by 69 per cent. The US Administration, which spent comparatively little on farm support in the early 1980s, is paying out some $30bn in 1986—almost 15 per cent of the budget deficit.

The direct subsidy costs of the CAP are estimated at $23bn for 1986-87, a doubling in five years. But if account is taken of the non-fiscal costs—that is, the burden on consumers who pay inflated prices, the true burden is at least twice as great.

Less well-known is the high level of Japanese agricultural protection. The fiscal cost was $10½bn in 1985, but has since increased with the rise of the yen. But the insulation of the Japanese consumer from world prices is costing far more—Japanese internal food prices are about 60 per cent higher than world levels. The ratio of Japanese support prices to international prices is more than eight for rice and 17 for sugar.

Mr Miller calls the ratio of international to domestic prices, the *adjustment gap*, and sees the reduction of the gap as the key to more sensible policies. If farm support were reduced, the gap would be tackled from both ends. Domestic prices would fall and international ones would rise.

The Australian study is gradualist in its approach. A purely market solution would soon reveal the effects of massive stocks, the excess supply now prevailing, and the likelihood of a very sharp fall in farm income. It accepts the goal of farm income support, financial security and stability of price. It advocates a switch away from price support towards specific programmes—which must surely in most cases be cash grants.

The gradualism is supported by an old Australian proverb: "When one is in a swamp full of crocodiles it is difficult to concentrate on the objective of draining the swamp."

Mr Miller advocates a "multilateral, multi-community" approach, in which the costs to each *farming community* of phasing out price supports are alleviated by similar action in other countries.

He criticises supply controls because they reduce incentives to cut costs and because the erosion of benefits through higher land values, livestock, feeding stuff prices and so on. But he is prepared to support measures such as the EEC milk quotas as a "temporary substitute" to bring *forward* the effects of major price reduction. My worry is that quotas are being used not as a temporary adjustment to more market-related prices, but as a substitute for them.

On the side of international negotiation, Mr Wheeler sees a "window of opportunity" after the German Federal elections in January and before the Venice summit.

He envisages a deal covering agreement to narrow the farm price adjustment gap; acceptance of general principles for reforming domestic farm support, periodic international review of progress, the quarantining of existing stocks with agreement on the appropriate triggers for release, and the development of more effective rules covering agriculture in the Gatt.

Whether the Australians really expect much of this to happen, I very much wonder. There is a more radical view, which puts the main hope on the collapse of agricultural policies through the sheer financial burden of supporting them.

In Europe, the CAP is beyond reform, and it would be best to start at the beginning with purely national policies in cases where some support is politically unavoidable. We need more integration in the shape of a common currency (namely the D-Mark, politely called the Ecu) but much less on the agricultural side.

It is unfortunate that the British Government is so keen for its budget rebate that it has not undertaken to veto another increase from 1.4 to 1.6 per cent in the VAT contribution to keep the policy tottering on a few months longer.

May I suggest a New Year's resolution to my politically *active readers in all countries.* This is that they do no work and make no contribution to their own political parties until agricultural (and non-agricultural) free trade appears in their manifestoes. They should not accept the ersatz radicalism of privatisation on the right and "social ownership" on the left. Free markets have their faults, but we see how much worse are the alternatives.

Lombard

Reindeer shortage in Oxford Street

By Michael Prowse

ONE HAS to be gregarious and energetic at the best of times to enjoy a shopping trip to the West End. During the so-called festive season, when policemen make you queue to cross the road, Oxford Street is arguably a more daunting obstacle course than anything the army can muster on Salisbury Plain. Those in tip-top physical condition may enjoy the noise, congestion and chaos; the rest of *us look forward* with *increasing* desperation to the era of true electronic shopping. I never want to see a queue, escalator, cash register or special Christmas offer again.

It is obvious that large amounts of money have to be wasted during the month of December. We must all glumly face the fact that we will have to fork out huge sums on presents that people won't really appreciate and certainly would not have purchased on their own account. And we will all receive our fair share of useless gifts. The winners from this orgy of obligatory buying of course, are the big department stores. But can they do nothing to make this haemorrhage of cash more pleasant?

The hassles of shopping, especially at Christmas, extend far beyond the mere selection of, and payment for, goods. Having endured the rugby scrum conditions of the sales floor, you may well be obliged to rely on the anachronistic and frustrating delivery systems of the big stores. These still seem designed for the Victorian gentleman of leisure: most are normally prepared to deliver goods only on weekdays during normal working hours.

To be fair, Selfridges, and some other stores claim that in "exceptional circumstances" they can occasionally manage a delivery on a Saturday. But it is clear that only a tiny minority of deliveries are made outside "normal" working hours and that customers ought to be grateful to be offered the choice of a weekday morning or afternoon. John Lewis does not even offer this degree of flexibility.

The casual shopper may not have thought through the Alice in Wonderland logic behind the refusal to deliver in the evenings or at weekends. It all has to do with traffic congestion, costs and labour availability. Delivery vans have to fight their way through London during the weekday rush because streets are then at their busiest. Deliveries at say 9 pm or on a Sunday would present no sort of challenge for despatch departments: with little traffic, time and petrol would be saved and companies would run the *risk of un-British efficiency* gains. Fortunately, of course, the idea of deliveries at irregular hours must remain an academic conjecture: with more than 3m people unemployed, there is no chance of finding drivers willing to work unconventional hours.

Social arguments are just as important. Department store chiefs, like burglars, are well aware that the number of single-person households is *rising and that, among married* couples, it is increasingly common for both partners to work full-time. But they don't feel compelled to assist these subversive trends. The refusal to deliver goods except when breadwinners are at work is a small, but telling, sanction—their way of glorifying the role of the traditional housewife.

Seen in a broader context, anachronistic delivery timetables and Oxford Street congestion are no more than spirited contributions to the great British game of making life unpleasant for the consumer. They are on a par with banks which open only for a couple of hours around lunch-time, gas meter men who call only when you are out, and British Rail employees who register disdain and disbelief when passengers become uppity enough to ask questions. Oxford Street, like BR, would *undoubtedly operate more* smoothly but for those confounded customers.

In the meantime, the department stores could surely learn something from an old hand who will deliver anywhere and preferably at dead of night. I always believed the best thing about Father Christmas was his distribution system. Give me reindeer at midnight, not the John Lewis van at noon.

Letters to the Editor

Employee share schemes

From the Chairman, Industrial Committee, Wider Share Ownership Committee

Sir,—The article by Nikki Tait and Richard Tomkins (December 13) gave a thorough and wide-ranging analysis of the growth of small shareholding, but it left open the question as to where in future the steam behind wider share ownership is to come from. One very substantial prospect is employee share schemes. There is a *fairly* steady rate of starting new schemes and this is a habit which is likely to be catching. When a company competing with yours starts employee share schemes, you think seriously about it too.

Employee share schemes are not, like the skate boards mentioned, a fashion which comes and goes. They are a means by which successful companies enable their employees to participate in owning some of the extra capital which the firm creates, as it grows. So long as we have successful firms, there is a strong case for having employee share schemes.

People who inherit half a *house may or may not put* some of their spare money into equities and it is up to the market to try to attract them. By contrast, employees who participate in share schemes are in on capital formation at the grass roots, learning what it is all about. This is the long-term, durable prospect for a continued widening of share ownership.

George Copeman.
94, St Paul's Churchyard, EC4

Worth leaving the country?

From Mr J. Paton

Sir, — Lucia van der Post is knowledgeable and witty when writing of caviar (December 13) but the advice on where to buy it could lead to disappointment.

Last-minute Christmas shoppers should not dash to Caviar House at Heathrow Airport's Terminal 2 unless they also have an airline ticket. The shop can be used only by bona fide air travellers who have already passed through security search and outbound passport control. Caviar House is in the departures lounge.

There is one other snag. Its Oscietra and other goodies are not duty-free. Some readers, however, might think the delicacies are worth leaving the country for.

John G. Paton.
35, Sarum-crescent, Wokingham, Berks.

Credit transfer times

From Mr H. Taylor

Sir,—Perhaps some readers can explain an extraordinary anomaly in the field of computerised finance which I encountered the other day.

The chief cashier in our local branch of Big Five (Brand X) informed me that it would take three days to transfer a credit (and, in my terms of reference, a substantial one) to another account in Big Five (Brand Y). Now I admit that both these banks are not actually in High Street: they must be every bit of two minutes walking distance apart. "This transaction has to be processed in London through the computer, you see," said the cashier, in the manner of one entirely satisfied with the validity of such an explanation.

Taking the distance between Ulverston and a few doors around the corner from Threadneedle Street to be 225 miles as the crow flies (possibly bearing my credit in its beak?) and consulting my Chambers to establish the speed of light, I give the formula for time-in-seconds of the two way trip of computerised instruction to be:

$$\frac{2 \times 225}{186{,}000} = 0.0024193 \text{ secs}$$

It would therefore appear that the times taken for transfer from one computer to another is 2 days 23 hours 59 minutes 59.997581 seconds. Is this a record?

H. S. Taylor,
Fieldholm, Sparkbridge, Ulverston, Cumbria.

Financial innovations and social benefit

From Mr T. Keeley

Sir,—Michael Prowse in "The perils of innovation" (December 10) implies that recent financial innovations have resulted in little social benefit and argues that "small, orderly and unadventurous financial markets . . . lend stability to monetary policy and reassure industrialists." I wonder which financial innovations Mr Prowse is thinking about and how the world as we know it could operate with small, unadventurous financial markets, or worse yet, reassured industrialists.

"Financial innovation in the UK and the US has, at least temporarily, utterly undermined monetary policy." Presumably Mr Prowse here refers to the development of interest-bearing chequing accounts, which obfuscated the definitions of traditional monetary aggregates, and the abrogation of monetary targeting which then necessarily followed. But haven't interest-bearing sight deposits had positive social effects and is the ending of targeting really such a heinous event? During the 1970s when interest rates rose, the imposition of Regulation Q resulted in the subsidisation of the commercial banking industry by consumers. Surely depositors have benefited greatly by the new accounts. Moreover, it is likely that targeting would have ended even if interest-bearing accounts had not emerged; as Goodhart's law reveals, all variables break down once they are explicitly employed in policy. The relationship between narrow money, output and prices by the early 1980s already required a revision in monetary policy.

"Global capital mobility and financial innovation have contributed to the greatest instability of exchange rates ever experienced." Mr Prowse here could be referring to the advent of 24-hour a day trading and the development of the euro-sterling, DM, Yen, FFr and dollar bond markets. But did these innovations actually cause greater exchange rate volatility, or were they rather its offspring? In any event, careful consideration reveals that financial innovation could not have directly contributed to the overvaluation of sterling and the dollar, as Mr Prowse claims. Such misalignments rather are a function of investor expectations which are themselves determined by comparative rates of interest and inflation, trade balances and political considerations. If anything, recent innovations have enabled both the personal and corporate sectors to better deal with adverse exchange movements, ie, through future contracting.

"The creation of countless new instruments . . . has left the authorities lacking the information required to judge whether the macro system is stable." NIFs, RUFs, other forms of contingent liabilities and commitments like letters of credit and stand-by guarantees, options and interest rate and currency swaps are probably some of the innovations concerning Mr Prowse here. Yet the central banks are actively gathering information about involvements in all these products, and proposals for their regulation are proceeding. The success of these initiatives will be determined by the co-operation of executives in the investment and commercial banking communities and the co-ordination of efforts by authorities in the Group of 10. Here, the Bank for International Settlements is playing a crucial, leading role.

"The real worth of many of the new products is anyway doubtful." Presumably by this Mr Prowse is referring to the multitude of new corporate financing tools and techniques emerging on both sides of the Atlantic. But who could have envisioned how the development of mortgage-backed securities would have enabled the savings and loan industry in the US to avert an even more serious financial crisis while providing record amounts of funds to new home owners, or how the development of high yield securities would have opened up lines of credit to more than 10,000 US corporations who were previously denied these because of their credit ratings? The recent debacle involving perpetual floating rate notes gives ample warning to underwriters regarding the dangers of over-extension into untested markets. But the success of other innovations, especially those like mortgage-backed securities and high yield bonds which developed despite great uncertainty about their viability, reveals that further experimentation with innovation can be both lucrative for the innovator and socially desirable.

Mr Prowse quotes Professor James Tobin on several occasions to make the point that "very little of the work done by the securities industry . . . has anything to do with the financing of real investment." US investment banks during 1986 helped corporations raise *more than $300bn in capital* markets around the world. It would be hard to imagine anything more real. Mr Prowse would do well to realise that the livelihood of securities houses here and abroad depends critically upon the efficiency they employ in channelling private sector savings to corporations and governments for their spending purposes. It is unlikely that the securities industry would intentionally jeopardise the financial system or employ new techniques and products which were not in some way cost effective for them or for their clients.

Terence R. Keeley.
Court Barn, Old Marston, Oxford

FINANCIAL TIMES
Thursday December 18 1986

Peter Ford in Tegucigalpa examines the diplomatic difficulties facing Nicaragua's rebels

Contras forced on to the defensive

THE NICARAGUAN Contra rebels, who just six weeks ago were preparing to take the initiative against the Sandinista Government with newly approved US funds, are back on the defensive, hemmed in by scandal in Washington and by Sandinista troops along the Honduran border.

Though guerrilla leaders insist they had no idea they had been benefitting from US arms sales to Iran until US Attorney General Edwin Meese revealed the link, they admit privately that the affair is a grave blow to their chances of further aid from Washington.

With Sandinista troops snapping at the rebels heels in their sanctuaries inside Honduras, the Honduras Government in Tegucigalpa is making it no secret that the Contras have outstayed their welcome.

Irangate or Contragate, as the affair has been dubbed in Central America, is proving devastating to the Nicaraguan rebels on several levels.

For a start, it has prompted the sacking of the Contras' most active backstage supporter within the US Administration, National Security Council aide Lt Col Oliver North, who allegedly channelled Iranian money to the rebels.

The damage done to President Ronald Reagan's personal authority has been especially painful for the Nicaraguan guerrillas, who depended heavily on the President's support to win approval of $100m in aid from a sceptical Congress.

The prospects of further such aid have clearly dimmed, say officials of the principal rebel umbrella group, the United Nicaraguan Opposition (Uno).

As Congressional committees and a yet-to-be-named independent council look into possible illegalities in the Iran arms sale and the Contra link, "the problem is that you could be throwing out the baby with the bath water," says one source close to the Uno leadership.

The rebels' plan, which emerged from a three-day meeting of the Uno directorate in Miami two weeks ago, centres on "winning more open support from Central American governments" according to Uno Secretary General Leonardo Somarriba.

Promising a "diplomatic offensive," Mr Somarriba sees public backing from the region as the best way to convince the US Congress that the Sandinistas remain a problem and that the Contras are still a viable solution.

That strategy, however, seems doomed to failure. Central American governments have long been dubious about the anti-Sandinista guerrillas and are even more likely to distance themselves if US commitment begins to falter, diplomats say.

"Honduras is never going to declare its support for the Contras, I can tell them that right now," says a senior Government official in Tegucigalpa.

"Not only would it be a violation of international law, but the Honduran people from the President down have no sympathy for the Contras," he adds.

General disaffection with the Contras, which has been festering among peasant farmers in the border area, has widened throughout Honduras over the past six months since Sandinista troops attacked a rebel training camp in Honduras last Easter.

The issue came to a head last week after another large-scale Sandinista incursion prompted the Honduran Air Force to bomb Sandinista units and call in US logistical support to ferry reinforcements to the combat zone.

If one of the Sandinista goals was to point up the political cost to Tegucigalpa of hosting the Contras, as diplomats and officials believe, Managua's policy appears to have borne fruit.

President Jose Azcona Hoyo of Honduras called in US Ambassador Everett Briggs on December 2, officials confirmed, to insist that the rebels should take their war into Nicaragua as soon as possible.

From a president who only three months ago was continuing to deny officially that there were any Nicaraguan guerrillas on Honduran soil, that demand marks a sharp shift in approach.

"We have been trying to lower tension with Nicaragua at the diplomatic level, and on the frontier our civilians have been caught up in fighting between the Contras and the Sandinistas and have had to flee," explained one senior official.

"The Honduran people have decided that the Contras' presence is damaging to the country".

Far from disrupting the Nicaraguan coffee harvest, a key economic target in past years, the rebels have not even been able to stop Sandinista troops from picking Honduran coffee, border residents say.

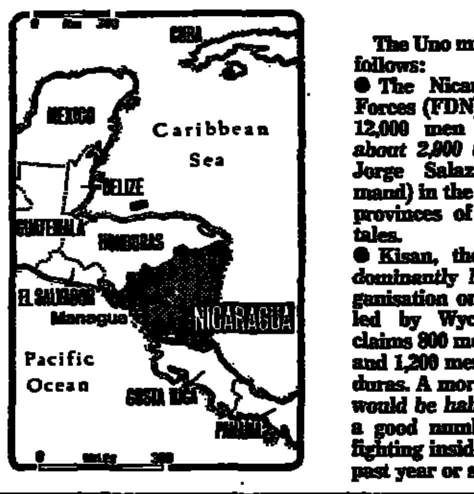
"We have not been infiltrating men into Nicaragua recently because of a lack of resources," explains Uno military secretary Luis Rivas. Now the money voted by Congress this autumn is flowing, he argues, the rebels will begin to show results.

Both Mr Rivas and SDN leader Adolfo Calero, however, say their strategy will be to expand operations throughout Nicaragua gradually, rather than attempt any spectacular attacks.

"We are simply following the original plan to implement the US aid, to carry the war the length and breadth of the country, to create an awareness of the Sandinistas' vulnerability and the possibility of our victory," says Mr Calero.

But with 60,000 regular troops arrayed against them and an iron social control throughout the Nicaraguan security services, the Contras are hardly well placed to launch such a campaign.

Even Uno's Washington spokesman Mr Ernesto Palacios acknowledges that "the Sandinistas' strongest field is the military one."



THE CONTRA FORCES

The Uno military is made up as follows:

- **The Nicaraguan Democratic Forces (FDN) with an estimated 12,000 men in Honduras and** ***about 2,000 (who make up the*** **Jorge Salazar regional command) in the central Nicaraguan provinces of Boaco and Chontales.**
- **Kisan, the indigenous (*****predominantly Miskito Indian*****) organisation on the Atlantic coast led by Wyclife Diego, which claims 800 men inside Nicaragua and 1,200 men in camps in Honduras. A more accurate estimate** ***would be half these figures,*** **and a good number have not been fighting inside Nicaragua for the past year or so.**
- **Uno-Farn, led by Fernando Chamorro, based in Costa Rica, has around 1,000 men but has not been militarily active for the past six months.**
- ***Outside Uno there is the*** **Southern Opposition Block (Bos) based in Costa Rica, led by Alfredo Cesar, which calls itself a social democratic grouping. Most of the commanders and men** ***have defected to Uno-Farn and*** **Bos has had no practical military force.**
- **Misurasata is also outside Uno. An indigenous group, it is headed by Brooklyn Riversa and** ***based in Costa Rica. Misurasata*** **has probably between 500 and 1,000 men but has been militarily inactive for 18 months.**

Mitterrand deals new blow to Chirac

By George Graham in Paris

MR François Mitterrand, France's President, yesterday dealt a further blow to the legislative programme of Mr Jacques Chirac, the Prime Minister, by refusing to sign a decree on working hours.

Mr Mitterrand has already twice withheld his consent from decrees since March, when the election of Mr Chirac's right-wing Government initiated the era of "cohabitation" between the right and left in government. But on those occasions, Mr Chirac was able to put the same measures through Parliament.

This time, the parliamentary calendar is likely to prevent the enactment of the proposed employment measures before April.

Mr Chirac was forced last week to slow down his legislative programme in the wake of widespread student demonstrations and the President's refusal to sign the decree means a further delay.

The decree, which would have allowed the possibility of flexible working patterns of up to 44 hours a week, was opposed by French employers because the ceiling of 44 hours was judged to be too low, and by trade unions because it was not linked to any reduction in overall working hours.

EEC cash crisis is 'far worse'

Continued from Page 1

problem now faced by the member states.

It also disguises the full costs of storage and intervention, because an increasing proportion of the cost is borne directly by the member states.

On cereals in particular, the Court of Auditors has carried out an on-the-spot investigation of food stores, concluding that there is inadequate quality control and measures to prevent deterioration, thereby preventing further losses.

Europe's steel makers near to accord on higher prices

BY PETER BRUCE IN BONN

LEADING EUROPEAN steel producers are close to agreement on a further attempt to increase steel prices, to come into effect on April 1, according to the chairman of Thyssen Stahl, Europe's largest privately-owned steel maker.

Mr Heinz Kriwet said that he was optimistic about the success of the two-week long pricing talks among the members of Eurofer, the club of steel producers which accounts for virtually the entire European Community market for the higher-quality hot and cold strip steel.

Efforts to win price increases for next year had been boosted by promises of support from Dutch and Belgian producers, Mr Kriwet said.

Producers from these two countries have in the past been accused of leading price falls in some products. If the increases now proposed are finally agreed and take hold, they could have a dramatic effect on consumer prices in Europe next year.

Mr Kriwet said Thyssen Stahl had achieved average prices for its prime products for the year to September 30 of DM 868 ($434) tonne. Eurofer was now trying to bring prices level with the European Commission's unpublished "guidance" prices, from which "we are far away," he said.

Eurofer, which does not normally agree prices and complains if it is referred to as a cartel, plans to meet just after Christmas.

The West Germans appear to be hopeful of achieving higher prices following the failure of efforts this year to make increases stick. These rises were aimed at steel strip, which is used in car and domestic appliance manufacture, plate and heavy and medium sections.

Mr Kriwet said that for the price increase to hold at least 80 per cent of the producers in any one product area would have to participate. He virtually ruled out hopes of achieving increas in wire rod, light sections and bars, which are often produced by independent steel makers

He noted, however, that British independents had agreed to try to implement the increases with Eurofer.

The pricing talks are underway at a time of increasing uncertainty and unease among the big steel producers which have seen a dramatic weakening in the European steel market.

Some of the lower quality product areas have been under attack from third countries. At the same time there are increasing fears among Community producers about Commission proposals to liberalise production quotas by the end of next year.

Thames TV buys stake in satellite

By Raymond Snoddy in London

THAMES Television, Britain's largest independent television company, is to become an equity investor in SES, a controversial, private Luxembourg-based satellite company which plans to launch a 16-channel television satellite to cover most of Western Europe.

Legally binding letters have been exchanged and Thames is to take a 5 per cent stake with an option on a further 5 per cent. Mr Richard Dunn, Thames' managing director, is to join the SES board.

The deal is subject to the formal approval of the Independent Broadcasting Authority (IBA). Approval is likely to be given as soon as the IBA is satisfied that the SES project, known as Astra, is not in breach of international law.

Thames is also considering the possibility of taking a channel on the satellite and launching a European satellite channel either on its own or with other television companies.

Thames also announced yesterday that it is not taking up its 10 per cent option in Super Channel, the £40m ($57m) British channel aimed at the Western European cable and satellite market. Thames is the only ITV company not to invest in the channel, which is due to be launched on January 30.

Thames will pay £3.7m for a 5 per cent stake in SES. In deciding to invest in SES, Thames is in effect saying that Astra is potentially the most cost-effective vehicle to reach the Western European audience and a better prospect than Super Channel or the British direct broadcasting by satellite (DBS) project.

The Astra satellite is scheduled for launch in spring 1988, two years before British DBS. SES says all its 16 television channels will be able to be received by a single dish aerial as small as 85cm diameter.

The medium power RCA satellite, SES argues, can deliver new channels of television to cable networks, to community systems in blocks of flats and direct to individual homes.

Mr Robert Maxwell, publisher of Mirror Group Newspapers, is believed to have put a proposal to the SES board to lease three Astra channels. Mr Maxwell wants to use Astra to deliver MTV, the American pop music channel, Premiere, the film channel in which he has a controlling interest, and a new general entertainment channel.

British Telecom has also been talking to SES for some time about the possibility of leasing a block of Astra channels.

The Thames decision is a major boost to SES's hopes that Astra will become "the hot bird" – the satellite that all the television operators want to get on. Existing satellite channels are split between two low power telecommunication satellites Eutelsat I and Intelsat 5.

Until now only one company, Scan-Set, has booked a channel.

Murdoch triggers bid for newspaper

Continued from Page 1

Mr Murdoch has mounted the Post acquisition through News Publishers, a subsidiary of his News International, which publishes The Times and the Sun among other UK titles. News International in London could not say last night when the full Hong Kong bid would be launched.

The HK$73 a share price to be paid to Dow Jones is identical to that paid last month to Hongkong and Shanghai Bank and Hutchison Whampoa, previously the Post's two largest shareholders. They are likely to have been surprised and discomforted by yesterday's agreement, as the earlier deal had been packaged as the first phase of a two-tranches arrangement in which the two stood to be paid substantially more for subsequent transfers of shares.

European group to buy Hilton International

BY RODERICK ORAM

A major European company is to pay $975m in cash for the Hilton International hotel chain put up for sale by Transworld, the US food services and hotel group when it chose recently to liquidate itself rather than be taken over by one of the US's most aggressive corporate raiders.

Transworld said it could not name the other party until the purchaser's "supervisory board" approved the deal. The phrasing may indicate a West German buyer. The price is lower than the $1bn to $1.2bn forecast by analysts.

The 90 international hotels are Transworld's prime asset although their profits have suffered this year from the downturn in international travel triggerd by fears of terrorist attacks. In the US, Transworld has only one Hilton but a number of Vista hotels. All other Hilton hotels in the US are owned by an unrelated company, Hilton Hotels Corporation of California.

Last month, Mr Ronald Perelman, a New York investor who controls the Revlon cosmetics group, disclosed a 14.8 per cent stake in Transworld and a desire to launch a full bid.

Transworld thwarted him with its liquidation plan although in the process it gave Mr Perelman an option to buy the Hilton chain for $1bn. Transworld said yesterday that Mr Perleman has waived the option to allow the latest deal to go through.

Transworld shareholders on record of December 30 will receive certificates in a liquidating trust which is holding Hilton's assets. When the sale is completed, the procreeds will be distributed to certificate holders.

The remaining Transworld operating subsidiaries will be merged into a new company the shares of which will be distributed to existing Transworld shareholders.

Vietnam leaders quit

Continued from Page 1

said on Tuesday that renovation of all spheres of public life was needed in Vietnam and that the reforms would be consistent with policy adopted at the 27th Soviet Party Congress held earlier this year.

Truong Chinh had earlier warned that Vietnam might lose Soviet aid because so much had been wasted, and Mr Legachov called on Vietnam to make better use of Soviet largesse.

The Soviet delegate gave full public backing to what he said was the "fair and reasonable" policy of Vietnam toward seeking a political solution to the Kampuchean issue. This has dimmed hopes that Soviet moves to improve ties with China would lead it to pressure Vietnam to withdraw its 140,000 troops from Kampuchea. China has made this a condition for improved Sino-Soviet relations.

The first hint that the entire old guard of the Vietnamese leadership would resign came last spring, when a senior Vietnamese official told a Japanese newspaper that the four leaders would resign to make way for the younger men. The expectations of sweeping change had dimmed when Truong Chinh assumed the party chairmanship in July after Le Duan's unexpected death, but the dismal performance of the economy accompanied by widespread criticism of the party leadership appears to have forced the issue.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	13	55	Dubrovnik	F	8	46	Malta	S	16	61	Rhodes	S	14	57
Algiers	F	15	59	Edinburgh	R	6	43	Manchester	F	8	46	Rio de J'o	C	38	100
Amsterdam	C	7	45	Faro	S	16	61	Manila	S	32	90	Rome	S	11	52
Athens	F	16	61	Florence	F	5	41	Melbourne	C	17	63	Salzburg	Sl	2	36
Bahrain	S	19	66	Frankfurt	C	5	41	Mexico City	–	–	–	San Francisco	F	8	46
Bangkok	S	33	91	Funchal	–	–	–	Miami	C	20	68	Seoul		9	48
Barcelona	–	–	–	Geneva	R	5	41	Milan	S	8	46	Singapore	R	24	75
Beirut	S	20	68	Gibraltar	S	17	63	Montreal	C	-6	21	Stockholm	C	-2	28
Belfast	C	7	45	Glasgow	R	6	43	Moscow	S	-14	7	Strasbourg	C	6	43
Belgrade	C	3	37	Guernsey	F	10	50	Munich	Sl	1	34	Sydney	S	28	82
Berlin	C	4	39	Helsinki	Sn	-11	12	Nairobi	F	24	75	Taipei	S	24	75
Biarritz	D	12	54	H. Kong	C	19	66	Naples	S	14	57	Tangier	S	17	63
Bombay	S	25	77	Innsbruck	Sn	1	34	Nassau	C	26	79	Tel Aviv	C	20	68
Bordeaux	F	12	54	Inverness	C	4	39	New Delhi	F	18	64	Tenerife	C	20	68
Brussels	F	6	43	Islamabad	C	13	55	New York	C	4	39	Tokyo	S	12	54
Budapest	C	4	39	Istanbul	F	13	55	Nice	S	17	63	Toronto	C	1	34
B. Aires	S	29	84	Jakarta	C	29	84	Nicosia	F	18	64	Tunis	F	16	61
Cairo	S	20	68	Jersey	F	10	50	Oporto	S	11	52	Valencia	S	16	61
Cape Town	S	21	70	Jo'burg	F	21	70	Oslo	Sn	-1	30	Venice	C	1	34
Caracas	C	24	75	Lima	C	22	72	Paris	S	7	45	Vienna	S	3	37
Casablanca	F	17	63	Lisbon	C	14	57	Peking	Sn	3	37	Warsaw	C	3	37
Chicago	C	3	37	London	C	7	45	Prague	S	3	37	Washington	–	–	–
Cologne	F	6	43	Los Angeles	F	11	52	Reykjavik	F	1	34	Zurich	C	4	39
Copenhagen	S	5	41	Luxembourg	C	3	37								
Corfu	F	13	55	Madrid	C	12	54								
Dallas	–	–	–	Majorca	–	–	–								
Dublin	C	8	46	Malaga	–	–	–								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

THE LEX COLUMN

Two minds in the market

Glaxo's share price has been in need of a pick-me-up for the best part of six months' underperformance. It now seems to have got what it needs, anticipating the arrival of a new potential wonder-drug by rising over 10 per cent in as many days.

Knowledge about the possibilities of a preparation which may be able to control anxiety and vomiting, depression and schizophrenia, has found its way into the market through a variety of unorthodox routes.

One market maker has gone to the unusual expedient of employing a medical practitioner to winkle out the research papers ahead of the herd. This scarcely amounts to insider trading – that is clear – but agency-style clients may wonder if they are still being given the old single-minded service.

Hogg Robinson

Insurance brokers have been some of the worst performing shares this year so for Hogg Robinson to be ahead of the market is quite an achievement, especially after a rights issue in January.

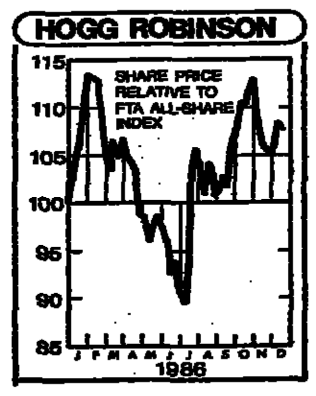
Yesterday's interim results, showing pre-tax profits up to best expectations at £7.9m, against £5.8m, put another 12p on the share price to 359p. The reason for Hogg's superiority is that while insurance broking profits are barely ahead, its non-broking activities are doing their stuff as the other cylinders to fire on.

With the help of acquisitions, the travel agency business clearly had a good summer, and now provides a neat counter-balance to the UK insurance broking business where the bulk of renewals come up in the January to March quarter.

Buying some more travel agents, even at these fancy prices, looks a good move and by the time the Lloyds managing agencies finally disappear in six years they should hardly be missed. Hogg can argue that the latest new venture – into estate agencies – although a different business, at least requires the same sort of management skills as travel agents or even retail insurance broking.

Estate agents have yet to justify their high multiples through extra financial services business for their new owners, and Hogg must be glad that it started to build up the travel business when there was less of a crush.

Further ahead the insurance broking side should have a clearer run now that capacity shortages are beginning to ease and barring another drop in the dollar. With a lower tax charge applied to full-year profits of £21m or so, against £17.4m, the multiple is still undemanding at under 12.



Vickers

The British Government's decisions on Westland and Nimrod appear to show that the possession of exportable technology is not the paramount objective of UK industrial policy. Vickers's announcement yesterday that it is close to a merger of its project engineering and contracting business with the project management division of Brown & Root (UK) betrays remnants of a more interventionist approach. Brown & Root is owned by the US company Halliburton. Although the merged company will be 70 per cent owned by B&R, a second agreement sees the creation of a merged R&D company, which is to be 51 per cent owned by Vickers.

This deal is a direct result of pressure from the UK Department of Energy to force US offshore contractors to cede control of their UK offshore technology to UK owned companies. Given the blight in the UK offshore supplies sector it is a little surprising to see Brown & Root succumbing in this way, even though Vickers does have something to bring to the partnership, particularly in non-offshore areas.

The two deals certainly make sense for Vickers, aside from the ownership of exportable patents. In project management and contracting it is too small a fish in a sea of whales: better to take a minority stake in a business with the necessary mass. Yesterday Vickers' share price was unchanged at 388p. A reported surge to 405p after the announcement may have been market confusion at the deals. More likely it was another case of clumsy fingers at the keyboard.

British Land

There is something not quite right about property companies making rights issues. Debentures are traditionally thought to be the proper way to go about funding such solid assets. And a quick look at British Land's placing-with-clawback, the modern equivalent to a rights issue, confirms the prejudice.

Issuing shares at a discount to a price already on a 32 per cent discount to asset value, to buy assets at a smaller discount to their value has to be dilutive however the proforma figures are worked; a discount of only 13.6 per cent on Euston Centre, certainly argues a good deal for the vendor P&O.

British Land's somewhat mischievous pre-deal revaluation of net assets, to 260p a share, leads to an immediate post-deal value of around 235p a share. Whether having 100 per cent control of the Euston Centre will add to its value fast enough to combat the dilution is just speculation.

To be fair, British Land's share price had fallen in expectation of this deal so it would be wrong to apply the pre-deal discount to the post-deal asset value in working out a reasonable share price. Even so, the shares at 175p, down 3p yesterday and compared to the 170p placing price, are at a tighter 23.5 per cent discount to the new asset figure.

Neither is the market inclined to put great weight on interim profits up from £8.1m to £11.7m, having failed to think much of last year's even faster growth. The earnings dilution will keep the prospective multiple rather high at around 14.5. Combined with the technical effect of a 45 per cent increase in the share capital, the odds favour some weakness in the shares.

Phantom offer

If English China Clays is to succeed in its bid for Bryant, it will probably have to raise its sights. But it cannot fail to be encouraged by Bryant's hallucinatory announcement yesterday that it was rejecting an offer that China Clays had yet to make. Secretarial error, perhaps, but it does rather undermine whatever Bryant may wish to say about the real increase – should it come.

FINANCIAL TIMES
Thursday December 18 1986

Thyssen Stahl plunges into first-quarter loss

BY PETER BRUCE IN DUISBURG

THYSSEN STAHL, Europe's biggest private sector steel producer, has plunged into loss in the first quarter of its 1986-87 year and the group says it does not expect to return to profit for the year as a whole.

In what amounts to an ominous warning for the rest of Western Europe's steel industry Thyssen, faced with subsidy and dollar-induced difficulties in export markets and mounting imports pressure at home, said it planned to cut steel production by nearly 10 per cent and was reckoning, on the basis of current pricing, with an 8.5 per cent fall in the prices it achieves for its prime products after a 3.9 per cent fall last year.

Although Thyssen Stahl ended the year to September 30 with net profits of DM 126m ($63m), these were sharply down on the DM 383m achieved in 1984-85.

Mr Heinz Kriwet, chairman, had warned a year ago of "negative omens" but said that the scale of the slump had been underestimated.

Thyssen, like most European steel producers, is finding the markets for plate, sections and wire rod particularly difficult and Mr Kriwet said that he could not rule out an attempt by Thyssen to withdraw from at least some of these products altogether.

Mr Kriwet was more vociferous than usual in his condemnation of the European Commission's efforts to regulate the steel industry.

The Italian state-owned producer, Italsider, was predicting 1986 losses of DM 1.1bn, he said, which would be met by the Italian Government. A West German company with losses that big would not survive.

Between 1980 and 1985 the Italian steel industry had been paid subsidies worth an average DM 195 per tonne of steel produced, the French DM 183 and Thyssen just DM 17, he said, some of which had to be paid back to Bonn.

This demonstrated "the absurdity" of European and West German steel policies. He had complained recently of unfair competition in Europe to the Government.

Thyssen Stahl's collapse back into loss has been almost as dramatic as its recovery in 1983-1984 when it made profits of DM 176m after losses totalling DM 416m in theory because of change in accounting procedures. That recovery signalled a return to profit of a kind for most of the West German steel industry.

Now the atmosphere in the Rühr steelmaking region is grim however. Thyssen recently decided to close down two blast furnaces in Hattingen. Mannesmann is in the process of losing some 6,000 of its steel workers.

At Hoesch in Dortmund there are plans to shed 4,000 jobs by 1990. Krupp may cut up to 2,000 workshop and administrative jobs.

Thyssen Stahl's consolidated turnover fell roughly DM 1bn to DM 9.55bn last year. Total raw steel output in Germany fell from 11.1m tonnes to 10.6m tonnes. Mr Kriwet said that sales to countries outside the European Community had fallen 12 per cent to some 2.2m tonnes.

One potent measure of the group's difficulties is that it managed to sell only 595,000 tonnes of steel to the US, a 30 per cent fall from just two years ago. At that time the strength of the dollar won Thyssen a lot of business selling continuously cast steel slabs to US steelmakers who would then roll it and sell it to the US motor industry.

SFG to buy bank stake for $27m

By Alan Friedman in Rome

SOCIÉTÉ FINANCIERE de Geneve (SFG) the Geneva-based investment company controlled by Mr Carlo De Benedetti, said last night that it had agreed to pay $27m to acquire a 10 per cent shareholding in Compagnie de Banque et d'Investissement (CBI), a Swiss private bank active in portfolio management.

The share acquisition, bought directly from the family which until now owned 100 per cent of the Geneva Bank, is part of Mr De Benedetti's strategy to build up a series of minority holdings in financial companies through SFG.

Mr De Benedetti acquired 27 per cent of SFG in November, and together with other friendly shareholders has effective control.

Among Mr De Benedetti's allies in SFG are Warburg-Soditic, the Indosuez group, Lombard Odier, Zurich Assurance, Banca Commerciale Italiana (Switzerland), the Saudi Arabian Olayan Group and CBI itself, which has 5 per cent of SFG.

CBI has total assets of around SFr 500m ($294 m), but does not disclose the size of its portfolio funds under management.

Shortly after acquiring his stake in SFG Mr De Benedetti launched a SFr 180m rights issue on the Geneva market for SFG. A further fund-raising issue is planned for early in the new year.

MBB limits forecast to break-even level

BY DAVID MARSH IN BONN

MESSERSCHMITT Bölkow Blohm (MBB), the leading West German aerospace group, expects only to break even this year because of problems above all in its helicopter business and over its role in the European Airbus manufacturing consortium.

Mr Hanns Arndt Vogels, chairman, said 1986 turnover was likely to fall to DM 5.6bn ($2.8bn) from DM 6bn in 1985. Last year, the company made net profits of DM 109m.

Negotiations with the West German Government over financing for the airbus were likely to lead to Bonn taking over, under certain conditions, DM 2.25bn worth of credits over the business for which it has already issued a guarantee.

MBB's subsidiary, Deutsche Airbus, has a 37.9 per cent stake in the airliner manufacturing venture.

Of 1986 turnover, civil aeroplanes made up DM 1.6bn with armaments DM 1.4bn, helicopters and military aircrafts DM 2bn, space DM 350m and other products DM 170m.

Mr Vogels voiced optimism about growing turnover in 1987 and said that he hoped sales could climb to DM 9.5bn by 1990.

Special write-off leaves Honeywell with $380m loss

BY JAMES BUCHAN IN NEW YORK

HONEYWELL, the automation and controls company yesterday announced a severe write-off of its equity as a result of giving up control of its faltering computer business to a joint venture headed by Bull of France.

The charge to fourth-quarter net earnings, of $575m, will wipe out earnings from Honeywell's other businesses and lead to a loss of about $380m for the year.

The charge, while broadly discounted in the market, indicates Honeywell's eagerness to get out of computers by placing its mainframe operations into a joint venture with Bull and NEC.

The $400m attributable to Honeywell Information Systems comprises a write-off of $250m, which was the discount to the book value in the sale price, as well as provisions for a reduction in the workforce and other pre-sale adjustments. The remaining $175m relates to the costs of restructuring and cutting jobs in other businesses.

COURT SETS ASIDE OBJECTIONS BY ASBESTOS GROUP'S SHAREHOLDERS

Judge backs Manville plan

BY RODERICK ORAM IN NEW YORK

A US judge has ruled as "fair and equitable" the reorganisation plan under which Manville will emerge from four years' bankruptcy court protection from more than $100bn of asbestos related lawsuits.

Common shareholders had voted against the plan because their stake in the company would be diluted by up to 98 per cent under arrangements to meet compensation claims from people who manufactured or used Manville's asbestos products.

The plan was approved, however by all other parties such as creditors, insurance companies, preferred shareholders and people seeking compensation

Setting aside the common shareholders objections, Mr Burton Lifland, a federal bankruptcy judge, ruled on Tuesday that the proposals met statutory obligations. He will issue a formal ruling tomorrow afternoon.

One additional hurdle remains for the Colorado-based building and forest products group which has sold all its asbestos activities. It needs court orders blocking any further punitive damage or asbestos related suits. Appeals against such orders could delay Manville from emerging from bankruptcy by the target date of July 1, 1987.

The core of Manville's plan is a trust fund which would pay out an estimated $2.5bn compensation to present and future asbestos victims over the next 30 years. Manville would fund it with $615m from its insurers, $200m cash, receivables and notes, and 50 to 80 per cent of the company's common stock.

Four years after emerging from bankruptcy. Manville would pay $75m a year towards a $1.8bn bond fund and contribute 20 per cent of its profits to the trust.

It would also establish a $125m trust to pay the company's share of claims for reimbursement of the cost of removing Manville's asbestos products from buildings.

In the first six months of this year Manville reported net earnings of $37.2m on sales of $946.1m.

Kevin Done looks at the reverse in the fortunes of Refaat El-Sayed, former head of Fermenta

A star wheeler-dealer falls from grace

THE END of Mr Refaat El-Sayed's meteoric career with Fermenta has come with chilling suddenness. All year as he wheeled and dealed, he always seemed to have a new card to play, but as the stakes built up and he was finally forced to show his hand, he had no more aces left.


Mr Refaat El-Sayed

In the whirlpool of his downfall it is too early to know who else may be dragged down with him, but at the very least it is clear that several big reputations in Swedish business have been badly tarnished and the turbulent Fermenta saga has suddenly turned very sour.

This week his creditors have moved in and taken over. He has already been removed from his post as chief executive of the biotechnology company that he personally created and for one-and-a-half years turned into the star of the Stockholm stock market with a share price development virtually unparalleled in Europe.

He will be forced off the board and will step down as deputy chairman in less than two weeks time at an extraordinary meeting of shareholders, when the whole existing Fermenta board is due to resign.

His shareholding control of Fermenta has already been wrested from him.

In the whirlpool of his downfall it is still too early to know who else may be dragged down with him, but at the very least it is clear that several big reputations in Swedish business have been badly tarnished, and the turbulent Fermenta saga has suddenly turned very sour.

In the glamour days when Fermenta's potential seemed unlimited and the deals from Mr El-Sayed were coming thick and fast, he gathered around him on the board weighty and influential names from Swedish business.

It is their reputations too that are now on the line, as well as the record of Fermenta's external auditors, Carlson and Fritzell, a small local Stockholm firm, and Ohrlings, a member firm of Coopers and Lybrand and one of the country's leading firms of accountants.

The cold Stockholm air has been thick with accusations, ever since the Fermenta board was forced to announce at the weekend that irregularities discovered by the auditors could virtually wipe out the group's reported profits for the first eight months of SKr 353m ($51m).

Two apparently conflicting versions of events have appeared. In the first the auditors became unhappy about the quality of the company's financial reporting as long ago as the spring and early summer, but despite repeated approaches to the management and then to the board, no corrective action was taken and no such information was given to shareholders.

It is a matter of public record that during this period a number of company insiders sold personal holdings in the company.

This version is vehemently rejected by Mr Gosta Bystedt, chairman of Fermenta from the beginning of 1982 until he resigned on October 22 last.

He maintains that the auditors had been "constantly reviewing Fermenta. They were told by me and the board to do so because Fermenta had had such phenomenal growth, and in such circumstances there is an extra risk that you get the wrong valuation on balance sheet items."

He admits that the board received a memorandum in June from the auditors urging a strengthening of the financial control function in the company and drawing attention to growing doubts about the risk involved in some customer outstandings but insists "there was nothing on the scale that has come up now."

"Last Saturday we (Mr Bystedt and Mr Skaantorp) got information from various sources that there had been transactions that had little or no real substance. That shocked us, that was a totally new thing."

Mr Bystedt said that the board had been systematically misled and estimated that dubious transactions had inflated Fermenta's reported profits by as much as SKr 200m this year. An inside tip had put the auditors on to the track that led to the board's surprise announcement at the weekend.

On Monday Mr Bystedt and Mr Skaantorp urged that the police be called in. In a joint statement they said that following the serious criticism from Fermenta's auditors about "dubious business transactions where Refaat El-Sayed and Fermenta are involved we demand, in the capacity of former members of the Fermenta board, that these business transactions be the subject of a police investigation."

Fermenta is now suddenly facing investigation from all quarters. Apart from the public prosecutor, the banking inspectorate is mounting an insider trading investigation, the National Board of Trade is scrutinising the role played by the external auditors.

The stock exchange has called in its own auditors to examine breaches of Fermenta's listing contract, only weeks after Mr Bengt Ryden, the director of the stock exchange, tried to have Fermenta expelled from the bourse but was outvoted on the stock exchange board.

Events this week have moved rapidly as Mr El-Sayed's creditors have scrambled to call in their loans.

On Monday Industrivärden, the Swedish investment company closely associated with Svenska Handelsbanken, exercised its collateral, when Mr El-Sayed defaulted on a loan of some SKr 570m and became the new dominant owner in Fermenta with a stake of some 43 per cent of the votes.

It has acted quickly to try to halt the crisis of confidence and stop any run on the company by customers, suppliers and creditors. Mr El-Sayed has been replaced as chief executive by 66-year-old Mr Sune Dahlberg, previously head of Fermenta's US agrochemicals operation which is currently under negotiation for sale to Monsanto, the US chemicals concern.

Mr Kjell Brändström, managing director of Industrivärden, is expected to become chairman of Fermenta on December 30, as the main shareholder and leader of the rescue operation. He faces a troubled Christmas as he seeks to pick up the pieces and put together a board that can regain investor confidence.

Mr El-Sayed's other main creditors Gotabanken, and Nordbanken, have also given notice to Mr El-Sayed on their loans amounting to SKr 535m and SKr 200m respectively.

In effect the creditors will soon have taken control over virtually all of Mr El-Sayed's holding, amounting to some 77 per cent of the votes.

When the clean-up operation is completed, they will hope to have a package attractive enough to tempt one of the big international chemicals groups, Mr El-Sayed flirted with these groups for many months this year without ever being able to recognise that the time had come to surrender control of his own creation.

With blood in the water the sharks will gather soon enough. Caution will be the watch-word until the bewildering series of investigations has begun to shed some light on Fermenta's precise financial status.

But Mr El-Sayed had probably done enough work on restructuring the world's bulk antibiotics market to ensure that there will not be a shortage of buyers at the right price.

Mr El-Sayed himself can only begin to count the cost of a reckless year. The 40-year-old Egyptian-born entrepreneur, who came to Sweden during the 1960s, started the year with a royal flush in his hand.

He had no debts to speak of, he had unchallenged control of Fermenta, and he was in negotiations with Mr Pehr Gyllenhammar, Volvo's chairman, which seemed set to put him in the driving seat for the restructuring of the whole of the Swedish biotechnology and pharmaceuticals sector.

When the Fermenta share price peaked at around SKr 300 he had become – on paper at least – probably the richest man in Sweden. Swedish television had just voted him "Swede of the year".

But the dream became a nightmare. He was discovered as having lied to investors about his academic credentials. He had faked a doctor's degree from the University of California and a masters from Uppsala in microbiology. From that point the slide began. His credibility and the viability of his main currency, the Fermenta share, began to crumble

Volvo pulled out before the co-operation deal could be signed, and Mr El-Sayed emerged with debts of more than SKr 1.4bn, the result of buying Fermenta shares expensively from the market for later transfer to Volvo.

In the present chaos the value of his shares has fallen so far that they can scarcely even cover the debts. Whether there will be any capital left at all later for Mr El-Sayed will depend on the creditor's ability to find a buyer.

The El-Sayed saga has mesmerised and latterly horrified the Swedish business establishment.

"It is a sad story," says one banker close to Fermenta, "it is almost like a Greek tragedy – you know that something is going to happen, but the main character cannot change course. He is the engineer of his own fate."

French broker seeks second bourse listing

By George Graham in Paris

A LEADING French stockbroker has set its sights on floating its own shares on the Paris second market.

Tuffier Ravier, a leading firm on the Paris bourse which has already opened its capital to outside investors, wants to obtain a second-market listing as soon as possible.

Mr Thierry Tuffier, the firm's head, said yesterday that he hoped such a listing would be possible soon although the retails governing a listing for a stockbroker remain to be decided.

The Paris Stockbrokers' Association is itself seeking ways of boosting the capital of its member firms so that they can compete in today's markets. Its preferred solutions, however, are increased borrowing or the issue of non-voting shares.

French brokers are not forbidden from seeking funding from outside investors, but at present only individual investors are allowed to own voting shares, and financial institutions such as banks are barred from buying into brokerage firms.

Brokers are now feeling the need to become more heavily capitalised in order to take larger positions in stocks and act as market makers.

Joint ventures set up between banks and brokers to act as position takers in this way have not so far been successful, and government officials are keen to develop this activity

A FINANCIAL TIMES SURVEY

The Financial Times proposes to publish a
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INTL. COMPANIES and FINANCE

Suard to head ITT-CGE link-up

BY PAUL BETTS IN PARIS

MR PIERRE SUARD, chairman of France's nationalised Compagnie Generale d'Electricite (CGE), is expected to take direct charge of the new landmark telecommunications venture between CGE and ITT by becoming the head of the telecommunications group when it is launched next month.

However, Mr Suard is also expected to step down as chairman of Alcatel, the French telecommunications concern controlled by CGE, whose operations will be merged with the telecommunications business of ITT in the new joint venture.

CGE appears confident that it will complete on schedule the deal by the end of this month, in time to launch the venture, which will create the world's second largest telecommunications group after American Telephone & Telegraph (AT & T) at the beginning of the New Year.

Although there are continuing doubts whether Telefonica of Spain will join the new venture by taking a 10 per cent stake in it for about $300m, CGE seems to feel there is still a chance that Telefonica will join.

CGE has made it clear that it favours the Spanish group's participation in the venture but not at any price. ITT's Spanish operations are expected to lose $60m this year after losing nearly $20m last year.

Despite the Spanish losses, the assests being grouped in the venture are expected to show an overall net income of about $250m this year on sales of about $12bn.

Sales are expected to grow to around $12.6bn-$12.7bn next year and the venture is expected to report net income of a little over 2 per cent of sales or about $250m-$260m, like this year.

CGE and its European partners are due to pay ITT $1.1bn in cash by the end of this year for their share of the deal. The cost of the venture for CGE will total $600m if the Spanish partner joins the group or $900m if it does not.

Societe Generale de Belgique, the other European partner, is expected to confirm its participation in the venture.

The venture will be at least 51 per cent controlled by CGE, with ITT owning a 35 per cent share in the operation. Although the venture will be a Dutch-registered company, its headquarters are expected to be in Brussels.

CGE does not regard at this stage the 24 per cent stake in STC, the UK electronic and computer group, owned by ITT and due to be absorbed by the new venture, as an immediate issue. The new venture controlled by CGE will continue to hold the minority shareholding in STC but the French group has indicated that it does not regard STC as strategic for CGE.

After launching the new telecommunications group, Mr Suard is expected to increase CGE's efforts to consolidate and develop the international position of Alsthom, the heavy engineering group controlled by CGE.

This is likely to involve the search for new international alliances and building up Alsthom's inndustrial presence abroad.

The French believes the telecommunications venture with ITT has given its Alcatel subsidiary the necessary worldwide scale to compete in a difficult market.

It would now like to reinforce Alsthom by doing for the heavy engineering subsidiary what it has done for Alcatel.

A first step has just been taken with the decision of Alsthom to take over the railway equipment business of Jeumont-Schneider, the telecommunications and engineering company controlled by the French Schneider group.

The merger, to be completed early next year, will turn Alsthom into the world's leading manufacturer of railway equipment.

AECI set to take over Triomf

BY JIM JONES IN JOHANNESBURG

AECI, South Africa's largest diversified chemicals company, is at an advanced stage in negotiations to acquire Triomf Fertilizer, the troubled fertiliser manufacturer.

Final agreement is not expected to be reached until after Christmas. However, it is unofficially estimated that AECI will pay about R60m ($26.9m) for the 75 per cent of Triomf's equity owned by Nedbank, the country's third largest bank.

The acquisition of Triomf's residual domestic fertiliser plants will give AECI about 40 per cent of South Africa's currently depressed fertiliser market.

South Africa's drought and export market difficulties pushed Triomf into a series of losses during the past two or three years and the company was saved from failure early this year when Nedbank, which was owed about R200m by Triomf, agreed to convert about R65m of debt into equity. The company suffered a pre-tax loss of R54.7m in the 11 months to May.

Triomf's 400,000 tonnes a year Richards Bay plant, which exports phosphoric acid, was placed in the hands of the liquidators and has been kept in operation at a reduced scale in anticipation of its sale. Hopes have been expressed periodically that the export plant might be sold to foreign investors, but nothing has yet come of it. Sale proceeds will be used to repay part of Nedbank's loans.

Cerus to raise FFR 2bn in year

BY OUR PARIS STAFF

CERUS, the French holding company of Mr Carlo De Benedetti, the Italian financier and entrepreneur, is expected to raise about FFr 2bn ($302.6m) in fresh equity next year. This would represent a doubling of the capital of the holding company set up by Mr De Benedetti earlier this year in France.

The new equity issue responds to growing demand for Cerus securities in France as well as Mr De Bendetti's efforts to strengthen Cerus financially in view of other possible acquisitions in France.

Through Cerus, Mr De Benedetti gained management control of Valeo, the leading French car components group and a 25 per cent stake in Yves Saint Laurent, the well-known fashion house. Cerus is now expected to increase its stake in Yves Saint Laurent to 37 per cent as part of its efforts to support financially the development of the fashion house which with the help of Mr De Benedetti, has just acquired Charles of the Ritz for $630m. However, Cerus' stake in Yves Saint Laurent is expected to decline eventually to under 33 per cent.

As part of the financing of the Charles of the Ritz acquisition, Yves Saint Laurent International, the new owner of the US perfume and cosmetics group, is launching a $75m equity rate with warrants issue.

Spanish bank wins licence in Gibraltar

By Joe Garcia in Gibraltar

A SPANISH bank has been granted a full banking licence in Gibraltar for the first time. The Banco de Bilbao will open its doors here early next year, and another bank, the Banco Central, has also applied for a licence.

Banco de Bilbao had shown an interest in operating in Gibraltar over a number of years, but the full opening of the border with Spain in February, 1985 gave impetus to the matter and led to a formal application.

Mr Brian Traynor, Gibraltar's banking commissioner, said the expanding economy had opened the door to new banks being allowed to operate in the domestic marketplace, although the situation would be closely monitored. Another Spanish bank, two US banks and a European one were also interested in establishing themselves in Gibraltar.

● The Majorca-based March banking group said yesterday it had completed the purchase of Credit Agricole's share of about 47 per cent in Simago, one of Spain's leading store groups, establishing virtually full control, writes David White in Madrid.

March is also making a public bid for the remaining small shareholdings in Simago. The total cost of the operation is put at around Pts 7.5bn ($55m).

First-half fall in earnings and sales at C Itoh

BY YOKO SHIBATA IN TOKYO

C. ITOH has become the largest general trading house in Japan on a consolidated basis, despite sales in the half-year to September which as Y7,114.1bn ($43.4bn) were down 11.5 per cent.

Net profits were Y8.46bn, a drop of 17.6 per cent which was blamed on a Y1bn fall in returns on investment in overseas affiliates.

Export fell substantially, due also to the falling price of crude oil and other primary products which wiped out a 12 per cent gain in domestic sales. Gross trading profits also dropped by Y15.8bn because of decreased export trading by the C. Itoh parent company.

The company cut marketing and management costs by Y13.3bn, and this enabled it to confine the fall in income before equity accounting. Lower financial costs were also made possible through reduced interest rates.

For the full year, the group project net profits at Y16bn, down 13.4 per cent, on a 10.7 per cent sales drop to Y14,200bn.

Profits dip at Otis of South Africa

By Our Johannesburg Correspondent

OTIS ELEVATOR, the 51 per cent-owned South African subsidiary of United Technologies, showed a dip in profits in the year to November despite a small increase in turnover.

Sales rose to R60.2m ($26.9m) from R59.7m, and pre-tax profits fell to R14.2m from R15.7m.

The company's new business has been affected by the building industry's recession, but turnover is underpinned by long-term service contracts. A dividend of 42 cents a share has been declared from earnings of 42.2 cents. In the previous year earnings were 47.4 cents and the total dividend was 44 cents.

Sanlam, South Africa's second largest insurance company, owns 20 per cent of Otis's equity.

AIBD BOND INDICES
WEEKLY EUROBOND GUIDE DECEMBER 12

	Redemption Yield	Change on Week %	12 Months High	12 Months Low
US Dollar	8.479	−0.796	10.262	8.478
Australian Dollar	14.024	0.071	14.587	12.830
Canadian Dollar	10.243	1.006	11.704	10.140
Euroguilder	5.978	−0.167	6.314	5.804
Euro Currency Unit	8.574	−0.787	9.524	8.164
Yen	6.245	−4.462	7.002	6.207
Sterling	11.315	−0.344	11.932	9.751
Deutschemark	6.334	−0.409	7.010	6.318

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INTL. CAPITAL MKTS & COMPANIES

New business activity in Eurobonds nears a halt

BY CLARE PEARSON

NEW ISSUE activity is almost at a halt in the Eurobond market. Many issuing houses, still holding substantial long positions in recent issues, are reluctant to take on more new paper which they cannot offload until investors interest picks up in the New Year.

In a generally quiet market, attention was focussing yesterday on Merrill Lynch's syndication of a $150m perpetual floating rate note (FRN) for Republic New York Corporation the holding company of Republic National Bank of New York.

Merrill had shown considerable bravado in announcing the deal late on Tuesday. The perpetual FRN market has still not recovered from a well-documented fallout two weeks ago, during which trading was temporarily suspended. Many dealers are still quoting prices on an indication-only basis and issues for the lesser-known borrowers are trading at very low levels.

Yesterday Merrill mustered two co-lead managers, and no co-managers for the deal. The co-leads were Shearson Lehman Brothers and Bear, Stearns International, both of which said yesterday they had long-standing relationships ith Republic Bank.

Other major FRN houses said they had turned down co-management positions. Their main reason was that they felt the issue would be extremely hard to sell in the aftermath of the recent cirsis in the perpetual sector. Additionally, some were concerned that Merrill had said it might not be syndicating the deal according to recent guidelines of the International Primary Market Association (IPMA) covering allotment amounts.

Merrill said yesterday that it felt a small group of co-managers was appropriate because it could control the issue's price better. In the current uncertain state of the market, it envisaged a wave of selling might have occurred if the deal had been widely distributed.

Merrill is calling the deal "puttable capital notes" because investors have an option to put in for shares or cash after 25 years. Paying ⅛ percentage point over six-month London interbank offered rate (Libor), it compares with two outstanding 25 year FRNs of the borrower priced at ⅛ percentage point over three-month Libor. It is not payable until the end of January.

The one new issue of the day was a Y10bn deal for Oesterreichische Landesbank, led by Yamaichi International (Europe). The deal, which matures in February 1992, pays interest on a "step-up" basis designed to attract Far Eastern investors.

The bond pays 10 per cent of the sum of ⅛ percentage point and six-month Libor for the first two years, and then 232 basis points over Libor.

The dollar and D-mark fixed rate markets traded thinly.

In Switzerland, trading was buoyant with mixed price changes. Aluminium Co Canada's SFr 178m 5¼ per cent bond, due 2003, closed its second day's trading at 93¾, 1¼ points down from Tuesday's close. Some dealers expressed surprise that the deal was not supported by the lead-manager.

People's Express's 5¼ per cent convertible issue closed at 53, compared with 55 on Tuesday. Today is the deadline for acceptance of the offer by Texas Air to buy all the issue at 65 per cent of face value plus accrued interest.

Autophon, Brown Boveri in radio link

By John Wicks in Zurich

AUTOPHON, the Swiss telecommuncations concern, is to pool its activities in the radio sector with the Brown Boveri group to form a joint-venture company with annual sales of about SFr 300m ($175.5m).

The company, Radiocom, will be owned 55 per cent by Autophon and 45 per cent by Brown Boveri, with supervision in the hands of the Solothurn-based Autophon.

As the core of a labour force of about 1,200 employees, Radiocom will be among the world's leading manufacturers in the field of mobile, military and relay-link radio and will have production and development facilities in "several countries."

Worldwide sales and distribution, customer support and service will be carried out mainly by the existing Autophon and Brown Boveri sales organisations. Product programmes of the two parent companies will continued and others added in time.

● The Swiss soft-drinks group Rivella expects to more than double its turnover by the take-over of Euro Citrus of the Netherlands.

The Dutch company, which has annual sales of the equivalent of over SFr 100m, supplies fruit juices and other fruit products to bulk users, primarily in the soft-drink, dairy-products, ice cream, baked-goods and confectionery industries.

Euro Citrus has about 130 employees in the Netherlands in the US and sales in more than 48 countries. Annual output is given as about 45,000 tonnes.

Riveila, best-known for the lactic-acid soft drink of the same name, is itself controlled by Robarth Holding of Zug. This parent company, set up by Rivalla founder Mr Robert Barth, already has a place in the international fruit-juice market through its subsidiary Passi.

The takeover of Euro Citrus will mean that Robarth group sales will rise from about SFr 90m to almost SFr 200m.

No details are being disclosed as to the price of the transaction.

$30m Thai Fund launched for foreign investment

BY STEVEN BUTLER IN BANGKOK

AN UNDERWRITING agreement signed yesterday has officially inaugurated the $30m Thailand Fund, a vehicle for foreign investment in Thai securities.

The fund, which is expected to be fully placed by the end of the week, is to be managed by Mutual Fund, a Thai company largely owned by the Government, and is being underwritten by the World Bank's International Finance Corporation, Vickers Da Costa International, Morgan Stanley, and Banque Internationale a Luxembourg (Asia).

Although the Thai securities markets are open to foreigi investors, the new fund offers tax and other advantages that the Government hopes will serve to draw more foreign capital into the market.

Although purchasers of the fund will be foreigners, the fund itself has been defined as a domestic Thai entity, and it will not be subject to the restrictions on foreign ownership of individual equity issues, which generally run from 25 to 50 per cent.

The fund will not be subject to income tax on dividends or capital gains tax.

Montefibre in L70bn issue

By Haig Simonian

MONTEFIBRE, the fibres unit of the Italian Montedison chemicals conglomerate, is raising about L70bn ($50m) with new shares and savings shares with warrants, in a Euro-equity offering through Credit Suisse First Boston.

The new issue comprises 18m ordinary shares and a like number of non-voting savings shares. The savings shares come with free warrants, which can be used during their one-year life to buy new savings shares at the prevailing market price. In all, the new issue represents 7.2 per cent of the company's existing ordinary shares and 72 per cent of its savings shares.

Montedison poised to buy Spanish group

By Alan Friedman in Milan

MONTEDISON, the Italian chemicals group, is in an advanced stage of negotiations to acquire Antibioticos, a Spanish bulk chemicals and pharmaceuticals concern.

The potential takeover of Antibioticos, which is active in antiobiotics research and a producer of organic intermediates, could cost Montedison as much as $200m.

The Spanish deal is part of Montedison's *strategy* of seeking two or three foreign acquisitions to replace its previously planned takeover of Fermenta, the Swedish biotechnology and bulk chemicals company.

Montedison broke off its Fermenta talks two months ago after increasing frustration with the company and its mercurial chief executive, Mr Refaat El-Sayed. At the time Mr Giorgio Porta, Montedison managing director, said the Milan-based group would be examining alternative acquisitions outside Italy.

Montedison's aims to acquire market share in the pharmaceuticals field to supplement the activities of its Farmitalia Carlo Erba pharmaceuticals subsidiary.

Antibioticos has annual turnover of about $144m and a workforce of around 1,300 people. *Roughly half of the company's products are exported from Spain* and Antibioticos is active in the North American market as well as in Europe.

Concern over Paribas stock

By George Graham in Paris

THE FRENCH Government has tried to damp down activity in the non-voting stock of Paribas, the investment bank due to be privatised in the second half of January.

Mr Edouard Balladur, the Minister of State for the Economy, Finance and Privatisation, has warned investers of the dangers of speculating in the non-voting certificates of investment, the price of which has risen strongly in recent weeks.

The success of the recent flotation of St Gobain, where applications for more than 10 shares were heavily scaled back, has encouraged demand for the Paribas certificates of investment, which will be converted into ordinary shares.

Mr Balladur warned, however, that investors should not count on the Government following the same conversion procedure as with St Gobain, where the certificates were exchanged for ordinary shares on the payment of only FFr 10.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 17

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Express 7⅝ 93	300	†97⅞	98⅛	+0⅛	0	8.03
Australia Com. 11 95	200	†115⅜	115⅝	0	−0⅜	8.37
Australia Com. 11¼ 00	100	†114⅝	115⅛	0	−0⅛	9.25
BP Capital 9¼ 94	100	105⅞	106⅜	0	0	7.97
British Telecom 7⅝ 96	250	98⅛	98⅝	0	+0½	7.86
Campbell Soup 10½ 95	100	112⅞	113⅜	+0⅛	−0¼	8.33
Canada 9 96	1000	107⅛	107⅜	−0⅛	−0¼	7.82
Canadian Pac. 10¼ 93	100	109⅛	109⅝	0	−0⅛	8.77
CCCE 7¼ 91	113	99⅛	99⅝	−0⅛	−0⅛	7.27
Citicorp 8¾ 93	200	98¼	98¾	−0⅛	+0¼	8.54
Credit Lyonnais 9 91	200	105¼	105¾	0	−0⅛	7.42
Credit National 9⅛ 93	150	106¼	106¾	0	−0⅛	7.75
Credit National 7¼ 91	150	99½	100	+0⅛	0	7.32
Denmark Kingdom 7¾ 93	250	99⅝	100⅛	0	−0⅛	7.76
Denmark Kingdom 8¾ 91	300	102⅞	103⅜	0	−0¼	7.46
Denmark Kingdom 7 88	1000	100⅛	100⅜	−0⅛	0	6.72
EEC 7 91	100	99⅛	99⅝	0	−0⅛	7.15
EEC 8¾ 96	100	103⅜	103⅞	+0½	−0⅛	7.71
EEC 8⅞ 91	150	105¾	106¼	+0⅛	0	6.91
EEC 9⅞ 90	350	106	106½	0	−0⅛	7.55
EIB 10¼ 94	200	111⅞	112⅜	0	−0¼	8.11
EIB 12 95	200	124¼	124¾	0	−0¼	7.87
Eurofima 7¾ 91	100	101½	102	+0¼	−0⅛	7.27
Export Dev. Cpn. 10 90	100	109⅛	109⅝	+0⅛	−0⅛	6.84
Finland 7½ 93	200	99	99½	+0⅛	−0⅛	7.64
Ford Motor Cred. 10½ 91	150	110½	111	+0⅛	−0⅛	7.77
Ford Motor Cred. 11⅞ 90	100	110¼	110¾	+0⅛	0	7.51
Gen. Elec. Cred. 10¼ 00	200	106⅞	107⅜	+0⅛	−0⅛	9.29
GMAC 10¼ 89	300	107¼	107¾	0	−0¼	6.83
GMAC 8½ 93	200	102⅞	103⅜	0	−0⅛	7.95
IADB 9⅞ 95	200	111½	112	−0¼	−0¼	7.99
Liberty Mutual 8½ 96	150	101⅛	101⅝	−0⅛	+0¼	8.24
LTCB of Japan 8 91	100	102	102½	0	−0⅛	7.39
Merrill Lynch 8¼ 91	100	103	103½	0	−0⅛	7.53
Mercds.-Benz Cred. 7½ 93	100	100½	101	0	−0⅛	7.34
Mitsubishi Fin. 7⅞ 93	300	100½	101⅛	0	−0⅞	7.73
Norway Kingdom 7¼ 91	500	100⅛	100⅝	0	−0⅛	7.14
Pepsico Inc. 7⅝ 93	200	97⅞	98⅜	+0⅛	0	7.74
Philip Morris 7½ 91	100	99⅛	99⅝	0	0	7.65
Qantas Airways 10⅞ 95	140	112	112½	0	−0¼	8.30
Queensland Govt. 10¼ 95	100	110⅛	110½	0	−0⅛	9.45
Ralston Purina 11¾ 95	150	†114¾	115¼	+0⅛	−0⅛	9.09
Saab Scania 9½ 91	125	105⅞	106⅛	0	−0¼	7.78
Saskatchewan 10¾ 92	100	112⅝	113⅛	0	−0⅛	7.64
State Bk. S. Aust. 9¼ 93	100	105½	106⅛	0	−0¼	8.02
Statoil 10 90	170	108¼	108¾	0	0	7.24
S. Wales Trsy. 11¼ 90	150	112¼	112⅝	0	−0⅛	7.43
Swed. Exp. Cred. 10 92	100	110⅝	111⅛	0	−0¼	7.48
Sweden 8¾ 96	200	105⅛	105⅝	0	−0¼	7.86
Sweden 10¼ 92	250	112½	113	0	−0⅛	7.50
Sweden Kingdom 10⅞ 90	200	111¼	111¾	+0⅛	−0⅛	6.94
Sweden Kingdom 7 91	250	99	99½	0	−0⅛	7.28
Toyota Motor Cred. 8 89	100	103⅛	103⅝	0	+0⅛	6.48
Victorian Rep. 11⅛ 92	150	115¼	115¾	0	−0⅛	7.97
World Bank 8½ 16	150	†99	99½	+0⅛	−0⅛	8.56
World Bank 9¼ 16	300	†102⅞	102⅞	0	−0⅛	8.99
Xerox Credit Corpn. 7 91	100	99⅛	99⅝	0	−0⅛	7.24
Yasuda Trust Fin. 8½ 93	100	102½	103	+0⅛	−0¼	7.93

Average price changes on day 0 on week −0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 8 94	200	109⅛	109⅝	+0¼	+0⅛	6.35
Austrian Elec. Co. 6½ 95	150	100¾	101¼	+0⅛	0	6.38
BMW 5¾ 96	200	92⅞	93⅜	+0½	+0¼	6.24
Daimler Benz Int. 5¾ 01	500	93⅝	94⅛	0	0	6.44
Dow Chemical 5⅝ 96	300	94⅞	95⅜	−0⅛	−0¼	6.38
Dow Chemical 6¾ 95	300	101⅞	102⅜	−0⅛	−0¼	6.41
EIB 5½ 98	150	92⅞	93⅜	−0⅛	−0⅛	6.38
EIB 6⅞ 95	300	103⅞	104⅛	−0⅛	−0½	6.31
EIB 7¼ 94	300	104⅞	105⅜	−0⅛	−0⅛	6.39
Embart Corpn. 6¾ 95	175	101½	102¼	−0½	+0⅛	6.46
Eurofima 6¼ 96	100	100⅝	101⅛	−0⅛	0	6.14
Ex.-Im. Bk. Korea 7⅞ 90	100	103⅞	104⅜	−0⅛	−0⅛	6.23
Finland Republic 7 92	200	103⅞	104⅜	−0⅛	0	6.00
Hoesch Intl. Fin. 7 95	100	101⅞	102⅞	0	+0¼	6.64
Hydro Quebec 5½ 96	125	94⅞	95⅞	+0¼	+0½	6.16
Hydro Quebec 6 16	150	86⅜	87⅜	0	−0¼	7.04
IBJ 5⅝ 96	200	95¼	96¼	0	−0½	6.25
Ireland 8⅛ 92	250	107⅞	108⅛	+0⅛	−0⅛	6.37
I/S Elsam 6¾ 93	125	†100⅞	101¼	−0¼	+0⅛	6.54
Korea Dev. Bank 6⅝ 93	100	96½	97	+0¼	−0⅛	6.86
Mitsubishi M. 3⅛ 89 WW	100	104¾	105½	−0⅞	−0⅞	1.38
Mitsubishi M. 3⅛ 89 XW	100	†94½	95	−0⅞	−0½	5.05
Renfe 7¾ 95	100	†105¼	106¼	0	+0¼	6.82
Soc. Cent. Nuclear 7¼ 95	150	100⅞	101⅜	0	+0⅜	7.04
Soc. Cent. Nuclear 8 91	100	105⅛	105⅞	+0⅜	−0¼	6.54
Stewwag 5½ 96	100	93½	94	+0¼	+0¼	6.40
World Bank 7 95	600	104¼	105	−0¼	−0¼	6.28
Yorkshire Intl. 6¼ 01	200	†90¾	91¼	−0⅛	0	7.27

Average price changes on day −0⅛ on week −0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5⅝ 96	100	†101½	101⅞	+0½	+0½	5.40
Amer. Corp. 5¾ 01	200	†89⅞	90	−1¼	−2	6.34
Baker Int. 4½ 96	200	*†88	88¼	0	+0⅛	5.78
Carlsberg 5 96	80	*†101¼	102	0	−0⅛	4.75
Chujitsuya 5¾ 94	50	*†102½	102¾	0	0	4.95
Deutsche Bk. Fin. 5½ 95	100	†106¼	106½	+0¼	0	4.42
Gen. Occidentale 4½ 94	80	*†137	137¼	0	−0¼	−0.12
Glendale F. S. & L. 5½ 95	100	*†100¼	100½	0	+0¼	5.44
Honsura 5⅛ 98	120	*†97	97¼	0	0	5.47
Industrial Credit 5¾ 96	75	†98⅞	99	0	0	5.90
Japan Dev. Bk. 5¼ 97	100	†102½	102¾	+1	+0½	4.80
Oberns. Kltwk. 5⅜ 95	100	*†101⅞	102	0	−0⅛	5.09
Olivetti Intl. 5½ 95	100	†102½	102⅞	−0½	−1	5.11
Pepsico 5¼ 95	130	*†103½	103¾	0	+1	4.71
Prov. of Manitoba 4¾ 94	200	†100½	100¾	0	+0¼	4.65
Ralston Purina 5⅞ 94	125	†98½	98¾	+0¼	−0½	5.59
Settsu Euro. 0 01	100	*†44⅞	44⅞	0	+0¼	5.79
Tohoku Elec. Pwr. 4⅞ 96	150	*†0	0	—	—	—
USX Corpn. 5¾ 98	100	†94¼	94½	0	+0¼	6.45
World Bank 5¾ 94	150	†103¾	104	0	0	5.15

Average price changes on day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Expr. OS Cr. 5⅞ 91	20	101	101½	+0⅛	+0½	5.53
Denmark 6½ 96	10	103⅞	104⅛	+0⅛	+0⅛	5.79
GMAC 5½ 91	60	98⅛	98⅝	+0⅛	+0½	5.71
EIB 6⅛ 96	25	102¼	102¾	+0⅛	+0½	5.76
Sweden, Kingdom 5⅞ 95	20	98¾	99¼	+0¼	+0¼	5.77

Average price changes on day +0⅛ on week +0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
AB Electrolux 14½ 90 AS	50	100	101	0	−0½	13.97
Ausalt Fin. 14¼ 90 AS	40	98⅞	99⅜	+0⅛	−1⅛	15.09
Bremer Ldsbk. 12¾ 91 AS	30	98⅛	99⅛	0	−0⅜	13.04
Fiat Finance 14½ 89 AS	50	100⅞	101⅞	0	−0⅛	13.65
GMAC 12⅞ 89 AS	40	97⅞	98⅜	0	−0¼	13.85
Landsbk. Rhein. 13 89 AS	30	†96	97	−0⅛	−0⅛	14.78
Canadian Pac. 10⅞ 90 C$	75	†106¼	107¼	0	0	8.13
Chrysler Corpn. 10 91 C$	75	†102⅞	102⅞	0	0	9.48
Gentar Fin. 11¼ 95 C$	75	†104⅞	105⅞	+0⅛	0	10.40
GMAC 9¾ 92 C$	75	†104½	105	0	0	8.72
Royal Trustco 10⅛ 90 C$	75	†105½	105⅞	0	0	8.71
Sears Acc. 10⅝ 92 C$	75	†106¼	106¾	−0⅛	−0⅛	9.11
Coca-Cola F. C. 17 90 NS	75	†104½	105½	−0⅛	0	15.05
Denmark 17½ 89 NS	50	*†108	109⅛	0	−0⅛	14.97
Unilever Cap. 17½ 89 NS	50	†109½	109½	+0⅛	+0½	15.05
Copenhagen City 9 95 Ecu	40	†101¼	101¾	−0⅛	−0⅛	8.75
EIB 8⅝ 93 Ecu	100	†104⅞	105⅜	−0⅛	+0⅛	7.55
Walt Disney 8¾ 94 Ecu	62	†103¾	104¼	−0⅛	−0⅛	7.99
Honda Mtr. WW 3⅞ 90 Fl	100	106½	107½	0	−0½	1.61
Honda Mtr. XW 3⅞ 90 Fl	100	93⅛	93⅝	0	−0⅛	6.18
Thyssen 7⅛ 90 Fl	50	103⅛	103⅝	0	−0⅛	6.29
Wereldhave 7½ 90 Fl	75	104⅛	104⅝	0	−0⅛	6.10
Wessanen 6¾ 90 Fl	50	101¾	102¼	0	−0½	6.13
Australia Com. 11 92 £	40	†97⅛	97⅝	0	+1	11.66
GMAC UK Fin. 10½ 90 £	30	98¼	99⅛	−0½	+0⅛	10.81
Imp. Chem. Inds. 10 03 £	100	93	93½	−0⅛	+0⅞	10.90
Imp. Chem. Inds. 10¾ 92 £	75	†97¼	97¾	+0⅛	+1¼	11.34
Invst. in Inds. Int. 10 93 £	60	†94	94½	0	+0⅞	11.30
Leeds Bldg. Soc. 10½ 91 £	50	95⅝	96⅛	+0⅛	+0⅞	11.74
McDonalds 10⅞ 90 £	40	†98⅞	99¼	+0⅛	+1⅛	11.28
Nationwide BS 10⅛ 93 £	75	92⅞	93⅛	0	+0⅜	11.76
NSW Treasury 10⅝ 92 £	50	†94½	95	+0⅞	+0⅞	11.90
Royal Insce. 10¼ 92 £	60	98½	99	+0⅛	+0⅞	11.03
J. Sainsbury 10⅞ 93 £	60	97¼	97¾	+0⅞	+0⅞	11.46
Trusthouse Forte 11½ 90 £	50	†98½	99	+0⅛	+1½	11.55
World Bank 11¼ 95 £	100	102⅞	103⅛	−0⅞	+0⅞	10.69
CoE 8⅞ 95 LFr	600	†105	106	0	0	7.97
EIB 8⅝ 93 LFr	1000	†104⅝	105⅛	0	+0¼	7.34

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bldg. 94 £	0.08	99.30	99.35	20/01	10.88
Australia & NZB Perp.	0.015	97.16	97.33	30/10	6.15
Barclays Bank Perp. 1	0¼§	99.62	99.80	2/01	7.06
Barclays Bank Perp. 2	0¼§	99.00	99.17	17/02	8¼
Belgium, Kingdom of 91	0	100.28	100.39	19/02	8.06
BNP 5¼ 95	0.05	†101.63	101.73	12/01	6.8
Britannia 5 93 £	0⅛	99.49	99.56	8/01	10.19
Chase Manhattan Corpn. 91	0⅛	99.92	100.02	20/02	6.12
Citicorp 98	0⅛	99.20	99.30	28/11	7.19
Credit Lyonnais 5 00	0⅛	100.77	100.87	12/01	6.81
EEC 3 92 DM	0	100.15	100.22	12/01	4.44
EEC 5¼ 93 Ecu	0.0312	99.83	99.93	30/01	7.66
Halifax Bldg. Soc. 94 £	0.1	99.33	99.38	6/02	10.54
Lloyds Bank Perp.	0¼	100.03	100.28	9/02	7½
Midland Bank 01 £	0.1	99.31	99.41	9/02	10.6
Milk Mrktg. Board 5 93 £	0⅛	99.56	99.63	29/12	10.68
NatWest Perp. A	0¼§	100.23	100.48	9/01	6.94
NatWest Perp. B	0¼§	100.15	100.40	10/02	8¼
New Zealand 5 97 £	0.07	99.74	99.84	14/08	10⅝
New Zealand 5 01	0	99.90	100.00	4/02	8.13
Prudential Corpn. 4 95 £	0.1	99.49	99.59	5/12	9.85
Shearson Lehman Hldgs. 91	0⅛	†99.54	99.64	6/02	6¼
United Kingdom 5 92	0	100.12	100.29	7/01	7.19
Woodside Financial 5¼ 97	0	100.08	100.18	29/03	6.81
Woolwich 5 95 £	0⅛	99.44	99.49	19/11	10½

Average price changes on day −0.03 on week +2.18

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1053	277¼	279¼	−0¼	8.33
Fanuc 3¾ 98	7/84	7032	258½	260½	+4	95.22
Fuji Bank 2½ 00	10/85	1672	161	162⅞	−0⅛	2.72
Fuji Heavy Industries 3 00	8/85	676	105⅞	106¼	−0⅛	4.00
Fujitsu 3 99	5/84	1320	142½	144	0	21.53
Minolta Camera 2¼ 94 DM	2/86	1105	98⅛	99⅛	0	58.02
Mitsubishi Bank 2⅞ 00	8/85	1768	154½	158	−2⅛	4.88
Mitsubishi Trust 2½ 01	5/86	1600	156⅛	158⅛	+0⅛	−11.69
Mitsui Bank 2⅝ 01	4/86	101.9	130	131½	−3½	−90.82
Mitsui Trust 2⅞ 01	10/86	1990	104¼	105	+0⅛	18.48
Murata 3½ 00	7/84	2398	292	293	−1⅛	18.80
Nippon Elec. 2⅞ 00	2/85	1295	250	252	−0⅛	209.47
Nippon Oil Co. 3 00	5/85	923	232	233	−0⅞	−0.71
Oki Elec. Ind. 3½ 99	10/84	805	130½	132	−0½	2.52
Sanwa Bank 2¼ 00	10/85	2406	152½	154	+0⅛	2.31
Sumitomo Bank 2¼ 00	8/85	2142	173½	175	+0⅛	4.23
Toshiba Ceramics 3 00	4/85	1734	122⅞	123⅞	+0⅛	7.45
Nippon Oil Co. 2⅛ 92 SFr	3/84	1052	*†132½	132½	0	−4.99
Nippon Shinpan 2 92 SFr	3/84	801	*†179½	179½	0	8.75
Asics 5 92 DM	12/83	529	125½	128½	−1	5.00

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

BUSINESS LAW

Milk and EEC competition

By A. H. Hermann, Legal Correspondent

MARKET REGULATORS are unpopular. They are costly, inefficient, and often get power-drunk. Their strategies often lead to disaster and they will be blamed even for disasters they have not caused. This explains partly why the European Court's judgment condemning dual pricing of milk by the UK's Milk Marketing Boards (discontinued in 1983) was received with cheers not only in France but also by a good many people in the UK.

Many people who prefer competition to regulation take note only of the short report, saying that the MMBs were condemned for distorting competition. It sounds plausible. However, there was no competition to distort, only distortions to put right. The judgment (case 23/84) is highly technical. It centres on the interpretation of Article 9, paragraphs 1 and 2 of Regulation 1422/78. This authorises the MMBs to fix different prices for milk *according to the use* intended by the buyer. The MMBs fixed a lower price for milk to be processed into packet butter than for milk to be processed into bulk butter, destined for production of ice cream, pastry, biscuits — and, of course, for the butter mountain.

The Commission insisted that "the use intended by the buyer" means butter production or other uses, and that the marketing boards fell foul of the law when they differentiated between different types of butter. There is nothing in the regulation which would justify this narrow interpretation, though the Court accepted it. In April 1980 the Commission said (ambiguously, according to the Court) that differential pricing was not automatically contrary to Community law — but in 1984 it sought and obtained a declaration that it was.

According to Article 9/2, differentiation of prices must not distort competition between the UK products and products of other member states. It was a question of fact whether the UK's dual pricing system operated against imports from other EEC countries. The French Government submitted in its observations that it was. Trade figures disprove it, but the Commission and the Court were not concerned with fact, only with a hypothetical situation.

Since 1979 imports of packaged butter into the UK have remained stable at around 60 per cent of UK consumption. In 1983 more than 40 per cent of UK production had to be sold into the butter mountain. These facts had less weight with the Court than the Commission's theories. The Court ruled that it was "clearly contrary to the general scheme of the Community provisions authorising the Milk Marketing Boards" to say that different selling prices on the basis of the use to which the milk is put are prohibited only when they distort competition. It was enough, said the Court, if it "entails *risks of distortion or of discrimination* even if it is in conformity with the criterion of intended use or of other intended criteria . . ."

This is a very surprising conclusion. The Court in fact rewrote Regulation 1422/78, first by accepting that "use" does not mean "use," but "kind of product." And, second, by declaring the prohibition of dual pricing to be almost automatic whenever it could potentially affect competition, even if it did not do so in reality.

Let us now turn to the economic realities and see whether the violence done to the words of the law could be justified by the aims of the Treaty—a method often adopted by the Court.

In Britain, demand for liquid milk for human consumption has always been very high. Before the UK's accession to the Community, not much of its milk went into butter manufacture; supplies of butter came mainly from cheap imports. Since the UK imported butter at world market prices, the prices at which butter was sold on the UK market were lower than the prices prevailing on the internal market of the Six.

The general effect of the "common organisation of the markets" was to restrict imports from non-member countries, promote an increase in butter production and impose prices higher than those on the world market. Higher prices were bound to meet with consumer resistance.

After the Treaty of Accession, butter progressively lost ground to margarine on the yellow fats market. Until 1978 the price was fixed by market prices for end products (butter and skimmed milk), including the milk buyers' profit margin.

Net returns on packet butter were lower than those on bulk butter from 1978 to 1983 because of a continued rise in milk production, leading to increased butter production; a constant decline in consumption; the growing pressure of imports; and an increase in the bargaining power of retailers.

Though the high level of UK imports indicated the continued attractiveness of the UK market, even during the period of dual pricing the French Government complained in its Observations that French butter manufacturers have repeatedly decided not to sell on the UK market, where they could have competed only by selling at a loss—in other words, that UK prices were not high enough to protect French profit margins. At the same time, the Commission complained that the UK system of pricing milk for packaged butter 10 per cent lower than milk for the production of bulk butter protected UK profit margins.

This was wrong, the Commission argued, since in this way UK butter was diverted from the butter mountain to consumers. The Commission argued: "The fixing by the Milk Marketing Boards of a lower differential price for milk used to make packet butter compensates British butter manufacturers wholly or in part for the fact that their processing costs are higher . . . and encourages them to remain in the market for packet butter rather than to sell into intervention."

The Commission said the charging of 10 per cent more for milk intended for bulk butter frustrated the purpose of Community aid paid to manufacturers of ice cream and pastry to induce them to use more butter instead of vegetable oils. So was milk for packet butter by 10 per cent too cheap, or was bulk butter by 10 per cent too dear? Taking the charitable view, one can say that the Commission complains of a 5 per cent distortion either way. Distortion of what? I am falling into the EEC language trap. The 5 per cent distortion was in fact a rectification of the distortion of competition achieved by the EEC aid for industrial use of butter.

A similar distortion of competition is achieved under EEC rules by the price of skimmed milk fixed so that it would displace other cheaper foodstuffs. The Commission complained that the higher UK price for skimmed milk, partly rectifying this distortion, led to a reduction of its use as animal feed and increased the risk that it would be used for making milk powder to add to the milk powder mountain. So the UK was castigated both for finding other uses for butter, thus saving it from the butter mountain, and for not saving milk powder from the same fate. Of course, the Commission really wanted UK butter to be dumped on the big heap and that it should be replaced on the UK market by French butter. This could have been achieved only by a further increase in the UK retail price of butter.

It can hardly be said that the aims of the Treaty justified the tortuous interpretation of the law adopted by the Court. The EEC regulation of dairy milk production is clearly contrary to the noble aims of Article 2 of the Treaty. This calls for an increase in stability of economic activities. The whipping up of milk production by uneconomically high prices, leading to unsaleable stocks followed by quotas, is now taking its toll on the farmers. Bankruptcies have followed a few years in the fool's paradise.

The CAP wrecks the EEC budget and its agricultural economy, as well as that of developing countries. It deprives the EEC of outlets for industrial goods and leads to trade wars with the US. The only solution the Commission is able to propose is that member states should finance the destruction of the butter stocks outside the budget.

These are the results of abandoning competition in favour of a crude and short-sighted regulation. Only someone who stands on his head can say that by trying to limit the consequences of this crazy system the UK has distorted competition.

APPOINTMENTS

Mr David Newbigging to head Rentokil Group

Mr W. H. Westphal will retire as chairman at the annual meeting of the RENTOKIL GROUP. He will be succeeded as chairman by Mr David Newbigging. A former chairman of Jardine, Matheson & Co, he joined the Rentokil Group on January 1 1986. His current appointments include deputy chairman of Provincial Group and a director of the National Coal Board.

★

Mr David Anderson has been appointed a director of stockbroker HENRY COOKE LUMSDEN. He is also a director of Henry Cooke Corporate Finance.

★

Mr Graham French has been appointed sales and marketing director and Mr Graham Plant becomes software director of ROLFE & NOLAN COMPUTER SERVICES.

★

Mr Michael David Deakin has been appointed a non-executive director of J. BILLAM. He holds 8 per cent of Billam shares and is a director of a number of other companies.

★

Mr Jerry O'Mahony, who joined LADBROKE in 1979 as group financial controller, is to succeed Mr Derek Sate as finance director from January 1. Mr O'Mahony, head of corporate finance since October 1985, was appointed an executive director of Ladbroke Group in April 1986. He was recently made non-executive chairman of Senews and Home & Law Magazines, two publishing subsidiaries. Mr Sate retires at the end of February.

★

Mr Colin S. Shepherd has succeeded Sir Peter Shepherd as group chairman and managing director of SHEPHERD BUILDING GROUP.

★

TANGYE has appointed Mr Tony J. Seall as director and general manager, following acquisition of the company by Turner & Newall. He was general manager of Hydra-Tight, which also belongs to Turner & Newall. Tangye will form part of the Flexitallic Group of Ten.

★

Mr Michael A. Higgins has been appointed to the board of CHARLES FULTON (IDB), gilt inter-dealer broking subsidiary of International City Holdings.

★

Mr Roy S. Brooks, Mr Richard L. Lamb and Mr Richard Robinson have been appointed directors of JOHN GOVETT & CO.

★

Mr Robert Smith has been appointed executive vice president, finance and administration and chief financial officer, of BPCC's American subsidiary BPCC (US) Inc. He was executive vice president, finance and chief financial officer, of R. R. Donnelley and Sons. He will also join BPCC's main board.

★

Mr Anthony Vice has been appointed a non-executive director of THE DRUMMOND GROUP. He is a director of N. M. Rothschild and Sons.

★

Mr Richard Taylor, managing director UK and European operations, has been appointed to the main board of HADEN GROUP.

★

Mr Ray Tindle has been appointed to the NEWSPAPER PANEL, from which additional members are appointed to the Monopolies and Mergers Commission to assist in the investigation of newspaper mergers. He is chairman (and founder) of Tindle Newspapers. He is also chairman of the Surrey Advertiser Group, and is a director of The Guardian Manchester Evening News.

★

ALLIED DUNBAR has appointed Mr Keith Carby, executive director, sales, to the main board.

★

ELECTROCOMPONENTS has appointed Dr Keith Bright and Mr Ray Horrocks to the main board as non-executive directors. Dr Bright is chairman and chief executive of London Regional Transport and Mr Horrocks was, until last July, executive main board director at BL (now Rover Group) with responsibility for BL Cars.

★

Joining the board of GALLAHER TOBACCO are Mr George Henderson and Mr John R. Taylor, who remain managing directors of Gallaher Tobacco (UK), responsible for operations and marketing respectively. Mr Henderson also continues as a director of Gallaher International.

★

Mr R. M. Dorman has been appointed assistant managing director by HIGH-POINT CTMS (EUROPE); Mr M. C. G. Smith as director technical and assistant managing director designate; and Mr D. M. Williams as director technical.

★

Mr Eddie Turk has been appointed head of industry affairs at UNITED DOMINIONS TRUST, a member of the TSB Group.

UK COMPANY NEWS

Mecca plans major expansion

BY TERRY POVEY

MECCA LEISURE, the bingo, dance hall and holiday camp group which came to the market in October, has targeted 24 key sites for growth. It is also looking to expand its specialised entertainment facilities through acquisition, said Mr Garth Guthrie, the company's chairman and chief executive, when announcing yesterday pre-tax profits of £7.55m for the year to September.

What Mecca was looking to offer its customers was "an experience beyond a three-course meal and a cup of coffee," said Mr Guthrie.

"Our emphasis remains the utilisation of large assets with big numbers of customers," he added. While there was a bias in expansion plans for the south-east, Mecca would keep its northern stronghold and would not yet be tempted by the lure of Spain, he said.

In the year to September, Mecca posted an operating profit of £13.6m (£9.5m) on a turnover of £128.6m (£123.9m). The divisional contributions to operating profits were: entertainment and catering, £4.08m (£2.29m); social clubs, £7.08m (£5.44m); UK holiday centres, £2.15m (£1.54m); and other activities, £267,000 (£266,000).

Interest paid was £6.03m (£3.77m) producing pre-tax profits exactly in line with forecasts of £7.5m made at the time of the flotation which compares with £5.8m in the previous year.

After taxes paid of £2.9m (£3.75m) and pre-acquisition profits of £830,000, fully diluted earnings per share were 9.1p. There was an extraordinary credit of £909,000 (a debit of £5.35m).

Mecca announced that in the year capital expenditure had been £8m and that in 1986-87 it was expected to be £20m. The current year's trading had started well, it said.

● comment

No surprises in these figures given the estimates made at the time of the flotation. Inevitably this will be a year of consolidation for Mecca's management team—upgrading certain facilities, attempting to find a formula for attracting the under 25s into bingo halls and looking for more ways of exploiting the second home-based holiday phenomena. Also Mr Guthrie and company have spent rather a lot of time with their professional advisors in the last year—running from the management buy out to the float—and will no doubt be all to pleased to concentrate on the business for a bit. A fall in gearing to below 40 per ecnt and a positive cash flow of £17m are therefore unlikely to produce a major acquisition—although some in-filling is to be expected. This year £14m should be possible, of which £3m or more will come from a lower interest charge, which puts the shares at 158½p on a prospective multiple of 13¼, which still leaves some room for upward movement.

British Land pays £65m for Euston Centre stake

By Nikki Tait

British Land, the property development and investment group, is buying out the 50 per cent stake in the Euston Centre currently held by Penninsular & Steam Navigation in a £65.4m deal. This will take its total spend on property acquisitions to £300m in the past three years.

British Land is placing a total of 56.2m new shares at 170p each, raising about £95.5m to pay for the bulk of the Euston Centre deal and to finance a number of other acquisitions.

P & O acquired its 50 per cent holding when it won its £402m bid for Stock Conversion, the property company, in May.

For its £65.4m, British Land will acquire Euston Centre Investments, which, besides the 50 per cent holding in the Euston Centre itself, takes in Vogue House in London's Hanover Square, two office properties in Dover Street owned by P & O and another in Wigmore Street. Euston Centre plus Vogue House are reckoned to account for about 60 per cent of the purchase price.

Together, ECI's property assets have been independently valued at £86.3m. Net assets, after deducting debt, are put at £75.7m.

To finance the acquisition, British Land is paying £11.5m via the issue of 6.75m shares directly to P & O—a 3.3 per cent stake in the enlarged equity—which P & O has agreed to retain for at least six months.

A further £6.36m will be paid in cash from British Land's existing resources, and the remaining £47.56m via the placing for cash of 27.9m shares.

The remaining £47.9m raised from the share placing will finance the £17m acquisition of Lowndes Lambert House in the City and the third tranche of the Legal & General office property portfolio, costing £31.4m and payable in January.

Existing shareholders are offered a full 100 per cent clawback over the shares being placed. They can subscribe at the placing price on a basis of two for every five held.

P & O said yesterday that it had come out of the deal with neither profit nor loss. Annual profit attributed to the interests being sold (after financing costs) is estimated at about £5.2m pre-tax.

Yesterday, British Land also unveiled interim profits for the six months to end-September. Pre-tax, the company made £11.7m against £8.1m a year ago, with net rental income £3m higher at £13.7m and the profit from property sales at £5.1m (£4.4m).

The net interest charge rose from £9.9m to £12m, and the interim dividend increased from 1p to 1.25p.

See Lex

Charterhouse boosted by merchant banking profits

BY DAVID LASCELLES, BANKING CORRESPONDENT

THE UK's booming corporate finance and development capital business has helped Charterhouse plc, the merchant banking arm of the Royal Bank of Scotland, to a sharp improvement in profits.

In its first full year since it was acquired by the RBS group, the bank made pre-tax profits of £23.4m, compared to £9.2m in nine months of 1985. The bank paid £7.7m in dividends to its new parent, and retained profits of £9.3m.

The bulk of Charterhouse's profits came from its merchant banking operations which contributed £15.5m. This includes the bank's fast-growing corporate finance business which was involved in 71 public transactions with a value of £6bn.

During the year, Charterhouse were advisers to Argyll in its bid for Distillers, and Woolworth in its defence against the hostile takeover attempt by Dixons. The bank also helped The Independent raise £18m; Charterhouse is now a 5 per cent shareholder in the new newspaper, and the Royal Bank has set up a £3m overdraft facility.

Mr Victor Blank, the chief executive, said Charterhouse intended to use its banking muscle more to help clients in situations like buy-outs and acquisitions. He said he had found the Royal Bank responsive as a parent. "We almost always get an answer to a proposal within 36 hours," he said.

A major growth area was development capital where profits rose from £1.5m in the nine months of 1985 to £8.8m in the latest year. Charterhouse invested nearly £23m in 33 companies, bringing its total portfolio to over £75m invested in 150 companies. Mr Blank claimed that Charterhouse is now one of the best-known names in the development capital business, with management buy-outs one of its specialties. It is setting up a £100m development capital fund, half of which has been raised in the US. Mr Blank expects the fund to take on deals between £10m and £25m. "We won't be looking for the major deals," he said, adding that the fund would longer-term deals. enable Charterhouse to take on

Profits are also rising in the group's investment management business, which now controls over £2bn of funds. After the recent failure of its negotiations to buy unit trusts managed by the Life Association of Scotland, Charterhouse expects to launch six unit trusts of its own next year.

Charterhouse is in the process of integrating the operations of Tilney, the Liverpool-based stockbroking firm it bought earlier this year. Mr Blank said the firm would enable Charterhouse to boost its abilities in the equity market, and complement the debt-raising facilities it was already able to offer. Eventually the firm's services would also be offered through branches of the Royal Bank.

Bullough pays £14.5m for East Anglian group

Bullough, the Surrey-based engineering and furniture-making group, yesterday unveiled preliminary profits up 28.8 per cent at a record £15.93m, a 34 per cent increase in the final dividend and a near £14.5m acquisition.

Bullough is acquiring the Hubbard-Read Group, one of East Anglia's largest private companies for £9m in cash and 1,805,054 new ordinary shares. Certain of the vendors, who will receive 1,658,176 of the new Bullough shares, have agreed to retain their shares for twelve months and thereafter to sell only through Bullough's stockbrokers. The new shares will rank pari passu with existing Bullough shares but will not rank for the final dividend for the year ended October 31. An extraordinary meeting to approve the acquisition will be held on January 2.

Hubbard-Reader's principal activities are: assembly, supply and maintenance of refrigeration and air conditioning equipment, the manufacture of electrical generator sets and alternators and the manufacture and sale of oil and gas fired boilers.

Hubbard's adjusted pre-tax profits for the year ended December 31 1985 were £2.18m.

Bullough's record pre-tax profits for the year to October 31 reflected a sharp reduction in interest payable and better performances from most of the group's larger companies. Tax took £5.9m (£5.2m). Earnings per share came out at 27.83p (21.08p). The directors recommended a final dividend of 7.4p (5.5p) a share making a year's total of 10.6p (8.2p).

Rotaprint trims midway losses

BY JANICE WARMAN

Rotaprint, the printing equipment manufacturer, which countered mounting losses with financial and board reorganisation, reduced its interim operating losses from £217,000 to £198,000.

A bid approach is now unlikely, said Mr John Crates, recently appointed chairman. "It's not impossible. But if it was going to happen, it should have happened nine to 12 months ago."

The company hoped to be in profit for the next financial year, he said. "We hope to pay a dividend as soon as we are in profit, even if it is only nominal."

The UK and overseas machine sales order book for the last year to September 27 was better than for some years, he said. The benefit of the reorganisation would begin to be reflected in the second half.

Rotaprint will pay no tax, and interest payments have fallen from £167,000 to £111,000 because of the group's reduced borrowings after the rights issue and placing of new shares in May.

Turnover fell by 13 per cent to £6.6m after the planned reduction of Rotaprint's manufacturing operation. Loss per half pence share was 0.082p (0.177p).

Changes have included reductions in current asset levels, the installation of new computer controlled machinery, the reduction of overheads by vacating one factory, and the extension of Rotaprint's product range.

In July the company's 5p shares were reduced to ½p, representing a total reduction of £1.96m in its share capital. About £1.6m, as well as most of the £759,000 in an existing capital reserve, was transferred to the profit and loss account to eliminate the adverse balance.

The financial reorganisation included a £979,000 rights issue and a £1.02m share placing.

Mansfield Brewery profit slides

BY ALICE RAWSTHORN

SHARES in Mansfield Brewery fell by34p to 400p yesterday when the company announced that its pre-tax profit fell by 14 per cent to £3.5m in the first six months of its financial year.

The company attributed the fall in profit to the fact that the contribution from "ordinary" property disposals—the sale of pubs no longer suited to its estate—was negligible in the interim period, compared with a contribution of £314,000 in the first half last year. This problem was compounded by a sharp increase in finance charges to £2.79m (£1.84m).

In the brewing and retailing division sales increased to £34.17m (£28.26m) and operating profit to £5.59m (£4.71m). North Country Breweries, which Mansfield acquired from Northern Foods for £42m in June last year, has now been successfully integrated but Mansfield reported a sluggish performance from its Mansfield and South Yorkshire regions.

Soft drinks lapped up healthy growth in turnover, rising to £20.18m (£15.57m), laregly due to the growth of its St Clements brand. Yet the cost of advertising St Clements reduced pre-tax profit to £521,000 (£765,000).

The company received £4.73m—expressed as an extraordinary item—as profit on the sale of a group of 78 public houses and clubs and of 12 licensed sites.

Earnings per share fell to 14.7p (15.7p) and the board proposed an unchanged interim dividend of 2.25p.

Mansfield says the second half of the year should show an improvement over the second half last year.

Border TV in USM debut

BY ALICE RAWSTHORN

Border Television, the independent television contractor for Cumbria and the Border counties, has joined the Unlisted Securities Market through an introduction.

Border's shares had been traded under the auspices of the Stock Exchange's rule 535 (2). But Border was keen to ensure that there was a more liquid market in its shares and specifically to enable people living in the Border television region to buy shares in the company.

Border is the smallest of the mainland ITV contractors and the last to go public. Its flotation follows those of Thames Television, TV-am and Yorkshire Television earlier this year.

The company has operated at a loss in two of its past four financial years, but returned to profit in the year to April 30 when it produced pre-tax profit of £704,000 on turnover of £8.86m.

The company recently organised a capital reconstruction in preparation for its USM introduction by simplifying its share structure — and enfrancising non-voting shares — and staged a rights issue to raise £565,000. The proceeds of the rights issue will be used to improve Border's production facilities.

In the introduction, through Henry, Cooke Lumsden of Manchester, Border will release its whole issued share capital of 10.12m shares on to the USM.

Mowlem nears bid victory

The bid by John Mowlem, the costruction group, for Glasgow Stockholders Trust has been accepted by holders of just more than half of the investment trust's ordinary shares.

Mowlem yesterday extended its offer until December 30 after receiving acceptances representing 50.6 per cent of ordinary shares and 48.7 per cent of voting rights. GST shares added 2p to 177p yesterday against the 173.6p estimated value of Mowlem's cash alternative offer, based on GST's formula asset value.

The Department of Trade and Industry said, meanwhile, that the bid would not be referred to the Monopolies and Mergers Commission.

Gibbs Mew lifts profits 22%

BY ALICE RAWSTHORN

Gibbs Mew, the Wiltshire-based brewer which is quoted on the USM, yesterday reported a 22 per cent increase in pre-tax profits to £563,000 in the first half of the financial year, although the company warned that so far sales have been relatively sluggish in the second half.

In the six months to September 30, turnover from the brewery division rose to £5.87m (£4.65m) and profit to £469,100 (£329,600). The managed houses increased turnover to £541,900 (£390,300) and profit to £75,000 (£69,700).

The soft drinks and bottling division, William Seymour, encountered problems, however, because of delays in the installation of new plant. Turnover from this division fell to £1.77m (£1.84m) and profit to £94,900 (£97,400).

The cost of capital expenditure combined with that of upgrading property and acquiring a new public house fuelled an increased in interest payable to £76,000 (£36,800). In November the company acquired 13 tenanted public houses from its fellow regional brewer, J. A. Devenish, for £1.5m.

In property development the scheme at Bridgwater has been completed and the office development at Kew Bridge is approaching completion.

In the opening months of the second half sales have been fairly flat, according to the managing director, Mr Peter Gibbs. The company expects the rate of profits growth to be rather slower in the second than the first half.

DIVIDENDS ANNOUNCED

Brit Land ......int	1.25	—	1	—	3
Brookmount ......int	‡1.3	—	nil	—	1
Jacksons Brne End int	2	Jan 30	2	—	6
Eliza Tinsley ......int	‡1	—	1	—	2.89
Cambell Armstrong int	‡1.3	—	—	—	—
Chemring	10.5	—	8.5	16.5	13.5
Bullough	7.4	—	5.5	10.6	8.2
Newman Tonks	4.2	—	3.85	7.2	5.5
Jurys Hotel ......int	1.5	Jan 23	nil	—	3.5¶
Hogg Robinson ......int	5	Mar 2	4.37	—	9.6
Gibbs New ......int	‡1.5	—	1.1	—	3.6
Soundtracs	‡1.2	Apr	—	1.2	—
Y. J. Lovell	6.3	Apr 1	5.45	8	7
Widney	0.47	—	0.27	0.8	0.53

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Single payment for year.

Public Works Loan Board rates

Effective December 17

Years	Quota loans repaid by EIP† %	Quota loans repaid A‡ %	Quota loans repaid at maturity§ %	Non-quota loans A* repaid by EIP† %	Non-quota loans A* repaid A‡ %	Non-quota loans A* repaid at maturity§ %
1	—	—	11¼	—	—	12¼
Over 1 up to 2	11¼	11¼	11¼	12¼	12¼	12¼
Over 2 up to 3	11¼	11¼	11⅜	12¼	12⅜	12¼
Over 3 up to 4	11¼	11⅜	11¼	12⅜	12¼	12¼
Over 4 up to 5	11⅜	11⅜	11⅜	12¼	12⅜	12¼
Over 5 up to 6	11¼	11⅜	11⅛	11⅞	11⅞	12¼
Over 6 up to 7	11⅜	11⅜	11⅛	11⅞	11⅞	11⅞
Over 7 up to 8	11⅜	11⅜	11⅛	11⅞	11⅞	11⅞
Over 8 up to 9	11⅜	11⅜	11⅛	11⅞	11⅞	11⅞
Over 9 up to 10	11⅜	11⅜	11½	11⅞	11⅞	11⅞
Over 10 up to 15	11⅛	11⅛	11	11⅞	11⅞	11⅛
Over 15 up to 25	11⅛	11	10⅞	11⅛	11⅛	11⅛
Over 25	10⅞	10⅞	10⅞	11⅛	11⅛	11⅛

UK COMPANY NEWS

Bryant forecast eclipsed by bid rejection blunder

BY CLAY HARRIS

ROBERT FLEMING was just a little too quick off the mark yesterday, rejecting an "increased offer for its client, Bryant Holdings, that had not in fact been made.

The merchant bank blamed "secretarial error" for the delivery of the wrong statement to the Stock Exchange, but the own goal overshadowed Bryant's forecast of a 55 per cent increase in pre-tax profit and allowed English China Clays to score a few easy points.

The statement quoted Mr Chris Bryant, chairman of the Midlands-based housebuilder and property developer, as saying: "It comes as no surprise to me that they have increased their offer. However, it is still derisory."

Schroders, advising ECC in its £137m takeover bid for Bryant, said that the "knee-jerk reactio ncast doubt on their motives and on whether they have shareholders' interests at heart."

Mr Richard Templeton of Fleming said, however, that no blame attached to Bryant. In fact, no statement was supposed to have been made yesterday. The profits forecast itself was not due to be released until Monday.

Bryant is forecasting pre-tax profits in excess of £21m in the year to next May against £13.5m inin 1985-86, with a 63 per cent advance at the after-tax level to more than £13.4m (£8.2m). It predicted earnings per share of more than 14.5p (10.3p).

Schroders said that Bryant should have provided a profits forecast when it launched a £17.4m rights issue in October. It also attacked Bryant's failure to disclose a valuation of its landbank.

'If and when they think we're going to increase our bid again, perhaps that's another of their announcements to put out," Mr Nicholas Jones of Schroders said last night.

EEC shares lost 3p to 318p, where its three-for-seven offer values Bryant at 136p, against yesterday's close of 155p, up 1p.

Redland and AAH in fuel venture

By Maurice Samuelson

TWO OF Britain's leading distributors of coal have agreed to merge, in the second such shake-up in this sector in less than two months.

Cawoods, a wholly-owned subsidiary of Redland, is to merge with British Fuel Company, owned 51 per cent by AAH Holdings and 49 per cent by British Coal.

The resulting venture, to be known as British Fuels, will be controlled and managed by Redland, with a 55 per cent shareholding. AAH Holdings will have 25 per cent and British Coal 20 per cent.

On receiving clearance in about two months from the EEC Commission and the Office of Fair Trading, it would be one of Britain's biggest independent coal distribution companies, with a turnover of some £700m.

The merger announcement follows the recent acquisition of the Yorkshire-based Hargreaves Group by Coalite, which includes the Charrington chain among its subsidiaries.

Mr Robert Napier, Redland's finance director, said last night that Cawoods had "performed well" since it joined the Redland group several years ago. Its sales areas were geographically complementary with those of BFC.

CALA's £7m housebuilding purchase

CALA, an Edinburgh-based housebuilding and property development group formerly known as City of Aberdeen Land Association, has agreed to buy **Dominion International's** housebuilding subsidiary, Dominion Homes, for approximately £7.2m, subject to approval by CALA shareholders. Consideration will be based on adjusted net assets of Dominion Homes as at October 31.

The acquisition will considerably increase CALA's housebuilding interests in the south of England and will establish CALA in the Midlands area, Mr Geoffrey Ball, CALA's chairman said yesterday.

CALA will finance the deal by a placing of 3.8m new ordinary shares at 97.5p, to raise £3.7m with the balance provided from CALA's existing facilities.

The new shares, to rank pari pasu with existing CALA shares, have been conditionally placed by L. Messel and Co.

Dominion Homes, operating from Horsham, in Susex and Solihull, Birmingham, sold 327 homes in the year ended March 31. Its operating profits during that period were £1.16m on turnover of £12m.

MINET HOLDINGS (insurance broker): Pre-tax profits for nine months to end-September 1986 £24.66m (£24.19m), on turnover of £74.7m (£66.44m). Outlook for year subject to problems of fluctuating currency rates.

Beazer pays £9.7m for Hong Kong company

BY DAVID GOODHART AND DAVID DODWELL

C. H. Beazer, the fast-growing building and construction group, has made its first acquisition in the Far East paying £9.7m for Hong Kong-based civil engineering group Franki.

Franki has been controlled by the Kadoorie family since it was founded 25 years ago but severe competition in the Hong Kong construction market has put it under considerable pressure. In 1985 it reported a loss but recovered in the first half of 1986 to report pre-tax profit of £813,000 on turnover of £27.3m.

The Kadoorie family has accepted the offer for 71.4 per cent of the share capital but will hold onto a further 9.9 per cent of the shares for at least one year. The family will also retain the right to nominate one director for up to three years providing it retains at least 8 per cent of the share capital.

Beazer has grown from a turnover of £25m in 1980 to an expected £1.2bn for 1987 and has expanded its overseas interests markedly. An ADR issue in the US is mooted and Franki will retain its Hong Kong quote thus making it possible to raise capital there.

Amber drops pref. plan

BY CHARLES BATCHELOR

Amber Day, the clothing manufacturer and importer, was yesterday forced to withdraw a plan to repay arrears on its preference shares after a number of shareholders rejected the terms as inadequate.

Mr Ronald Metzger, Amber chairman, adjourned the extraordinary meeting called to approve the proposals indefinitely and said the board would review the position when the interim results were available next April.

Shareholder resistance was rallied by Mr John Cable, a director of Granville Davies Coleman, part of the Granville group. Acting in a private capacity Mr Cable and a number of his personal investment clients with a combined stake of more than 25 per cent said they would block the plan.

Amber could either improve the terms of the share swap or distribute some of its cash reserves, Mr Cable said. It might also decide to issue some of its 24 per cent shareholding in USM-quoted menswear retailer, John Kent, he added.

Mr Metzger said he had been aware that Mr Cable spoke for a large shareholding but he had not realised quite how big it was. He withdrew the motion seeking shareholder approval as soon as it became apparent it would be defeated.

BTR extends £1.1bn offer for Pilkington

By Martin Dickson

BTR, *the industrial holding* company, yesterday extended its £1.1bn hostile takeover bid for Pilkington Brothers, the glass manufacturer, after picking up acceptances covering only 0.05 per cent of the shares by the first closing date of its offer.

The offer has been extended until January 24, the 60th day of the bid, which is the date it must finally close under the timetable set down in the City takeover code.

Normally, offers are initially extended for just one or two weeks, but the BTR camp said yesterday it had decided to set a date clear of the Christmas holiday period.

The fact that it has chosen the 60th day does not impede its flexibility, should it decide to increase the offer Analysts say it will have to substantially increase its terms to stand any chance of success. BTR's shares closed last night at 270p, down 1p, at which price its offer is worth 528p for each Pilkington share. Pilkington closed at 641p, up 3p.

The Office of Fair Trading has yet to recommend to the Government whether or not the bid should be referred to the Monopolies and Mergers Commission.

COMPANY NEWS IN BRIEF

ULSTER INVESTMENT Bank (merchant banking subsidiary of Ulster Bank, part of NatWest Bank group): After tax profits for 1986 a record £5m, representing a return on capital of 21 per cent after tax. Assets up 7 per cent to £730m and deposits by 11 per cent to £651m. Funds under management £830m.

R. H. MORLEY GROUP (USM quoted polythene film and bag manufacturers). Turnover £2.26m (£2.24m) for six months to September 30 1986. Pre-tax profit £100,291 (£80,172); tax charged £35,102 (£28,060) and earnings per share of 1.74p (1.39p). Egm being called to consider name change to British & Overseas Holding or Wentworth International Group.

STERLING PUBLISHING Group (USM-quoted publisher). Pre-tax loss £218,000 (£236,000), on turnover of £1.9m (£994,000), for six months to end-September 1986. Losses per share 1p (1.2p) after tax credit £79,000 (£96,000). No interim dividend.

UK COMPANY NEWS

Hogg Robinson beats City forecasts with £7.9m

BY NICK BUNKER, INSURANCE CORRESPONDENT

A big jump in summer holiday bookings and a fall in borrowing costs helped Hogg Robinson, the insurance broking, transport and travel agency group, boost interim pre-tax profits by 36 per cent to £7.9m.

The results for the six months to September 30 overshot analysts' forecasts of between £6.8m and £7.75m.

The increase came in spite of adverse currency movements and a rise in premium rates for professional indemnity insurance for Hogg's insurance broking arm. Those two factors meant that insurance broking profits grew only four per cent to £2.6m.

Mr Albert Wheway, group chairman, said the results must not to be taken as an indication for the whole year. But the outlook for 1987-88 was "very encouraging."

Earnings per share were up 33 per cent at 10.5p, the group said. It declared an interim dividend up 15 per cent to 5p per share.

Hogg Robinson said that earnings from its transport, travel and financial services division were up 42 per cent at £6.1m, showing "a very satisfactory performance" from its retail travel agency business. Summer holiday bookings were up 26 per cent, but demand for business travel was also bigger than expected.

The interim results included no earnings contribution from the group's 49 estate agency branches. But they showed a £400,000 fall in borrowing costs to £300,000, reflecting the benefits of a £15m rights issue last January.

Insurance broking turnover was up nearly 20 per cent at £64.5m. But profits were held back by adverse currency changes costing about £1m. Premiums for the broking arm's errors and omissions insurance increased to £700,000.

Republic Hogg Robinson, the group's US broking subsidiary, showed "a substantial increase in profits." But growth of London market insurance broking income was limited by tight underwriting capacity and reduced commission rates.

Hogg Robinson also officially announced yesterday (Wednesday) that it is paying £2.75m cash to buy 21 travel agency branches in north western England from Airtours Limited. The group estimates they would have made pre-tax profits of about £400,000 in the year ending September 30, if in Hogg Robinson's ownership.

See Lex

Beecham interest in Eurobrands sold

BY TONY JACKSON

Beecham is to sell its interest in Eurobrands, the final part of its UK wines and spirits business, to Remy Martin for £8m. The sale, part of Beecham's wide-ranging asset disposal programme, comes after last month's £4m sale of the Findlater Mackie Todd drinks business to management.

Eurobrands was formed a year ago by Beecham, Remy Martin and Campari to market wines and spirits in the UK.

Eurobrands will take over Beecham's wines and spirits organisation, which employs 77 people at Merton in Surrey.

Beecham separately announced that it has received official clearance to market Eminase, its new heart attack drug, in the important West German market. Eminase, which aims to dissolve the blood clot causing the attack before the heart tissue is destroyed, was previously approved only in Belgium. Beecham said it planned to launch the drug in West Germany next spring.

Eminase is one of the most important new drugs in the Beecham portfolio. Its chief competitor will be the naturally occurring substance TPA, being developed in the US. Eminase is being introduced to European markets well ahead of TPA, but will be several years behind in the US market.

STANLEY LEISURE (betting shop operator) is acquiring Arthur Roye, a private company *which operates 15 betting shops* in the Manchester area, for a total of £1.5m in cash, loan notes and shares. The acquisition *increases Stanley's betting* shops to 133.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Beadstock, Braithwaite, Brown and Tawse, ERF, Harold Ingram, London Merchant Securities, Mitchell Thompson and Evershed, Old Court Currency Fund, Property Holding and Investment Trust.

Finals: Audio Fidelity, Bankers Investment Trust, Cifer, Grand Metropolitan, Greenwich Resources, Guinness Peat, Irish Ropes, Macarthy, Speyhawk, Spice, Watson and Philip, Windsor Securities.

FUTURE DATES

Interims:	
Amalgamated Financial Investa.	Dec 22
Forminster	Dec 23
Monk (A.)	†Dec 23
Sturge	Jan 13
Sutcliffe Speakman	Dec 19
Finals:	
Nash Industries	Dec 22
PWS	Jan 6

† Amended.

All-round growth lifts Lovell to £12m

YJ Lovell (Holdings), Buckinghamshire building contractor, increased its profits before tax by 36 per cent over the 1985-86 year and is rewarding shareholders with a 1p bigger dividend of 8p net per share.

A scrip issue on a one-for-one basis is also proposed.

The directors said yesterday that the £3.22m improvement in profits to £12.26m reflected an excellent performance from residential development, both private and partnership, better-than-expected profit from plant hire, some improvement in general construction and continuing growth in the US.

Turnover for the year to end-September pushed ahead from £238.54m to £266.99m. Pre-tax profits included an associate's contribution this time of £38,000.

Tax accounted for £4.36m (£2.89m) and left earnings at 29.8p (27.4p). There were extraordinary debits of £329,000 (£880,000).

The current year had started satisfactorily. Commercial development had secured several opportunities which they said would contribute profits in future years.

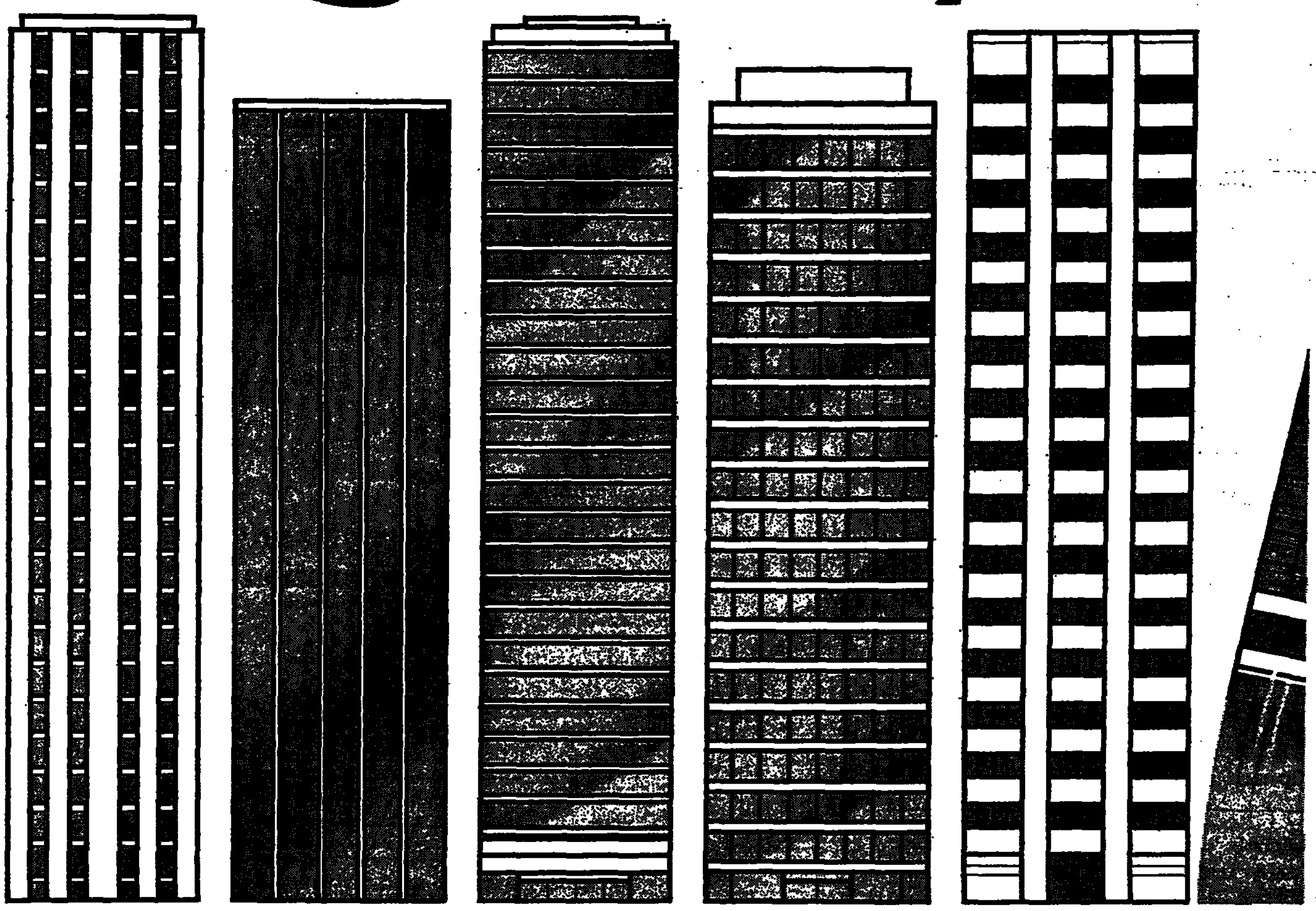
● **comment**

These profits were bang in line with most analysts' original forecasts but some extra hype in the run-up to the figures made a one-third profits increase seem disappointing and the shares fell 15½p to 377½p. But urban renewal may well prove to be a political battleground in the build-up to the general election and Lovell is well placed to benefit from any increased spending. Around a third of its houses are built through a partnership scheme with local authorities and it undertakes inner-city developments through the PROBE scheme with the Halifax and Nationwide building societies. Private residential development is also bounding ahead and the group expects another 10 per cent increase in house building to hit 3,300 units this year, with the help of its recent move into Scotland. Pre-tax profits, as the group enters its third century, should hit £15m this year putting the shares on an undemanding prospective p/e of under 11.

Delta cuts DEI stake

Delta Group, the Midlands-based engineering company, confirmed yesterday that it has reduced its stake in Johannesburg-quoted Delta Electrical Industries to 49.4 per cent.

The announcement follows the injection of Delta's non-manganese subsidiaries into Delta Electrical Industries—which increased the parent company's stake in DEI from 76 to 82 per cent. The 33 per cent holding has subsequently been placed, for around £4½m.



GRANVILLE
SPONSORED SECURITIES

High	Low	Company	Price	Change	Gross div.(p)	Yield %	P/E
146	118	Ass. Brit. Ind. Ordinary	132xd	—	7.3	5.5	8.1
151	121	Ass. Brit. Ind. CULS	146xd	—	10.0	6.9	—
46	28	Armitage and Rhodes	34	−1	4.2	12.4	4.8
71	64	BBB Design Group (USM)	67	—	1.4	2.1	16.0
212	108	Bardon Hill Group	212xd	+1	4.6	2.2	24.1
94	42	Bray Technologies	94	—	4.3	4.6	11.2
201	75	CCL Group Ordinary	133	−1	2.9	2.2	9.4
152	86	CCL Group 11pc Conv. Pf.	98xd	−1	15.7	15.9	—
283	80	Carborundum Ordinary	283	+1	9.1	3.5	12.7
94	83	Carborundum 7.5pc Pf.	89xd	—	10.7	12.0	—
32	20	Frederick Parker Group	22	—	—	—	—
125	50	George Blair	91	—	3.8	4.2	2.3
95	20	Ind. Precision Castings	95	—	6.7	7.1	8.5
218	150	Isis Group	150	—	18.3	12.2	8.6
126	101	Jackson Group	126xd	—	6.1	4.9	8.5
377	228	James Burrough	355xd	—	17.0	4.8	10.0
100	85	James Burrough 9pc Pf.	90	—	12.9	14.3	—
1035	342	Multihouse NV (AmstSE)	705	—	—	—	38.9
380	280	Record Ridgway Ordinary	357	—	—	—	6.4
100	82	Record Ridgway 10pc Pf.	82xd	—	14.1	17.2	—
90	32	Robert Jenkins	84	—	—	—	3.7
40	28	Scruttons "A"	40xd	—	—	—	—
136	66	Torday and Carlisle	136	—	5.7	4.2	8.2
370	320	Trevian Holdings	331	—	7.9	2.4	6.9
79	25	Unilock Holdings (SE)	79	—	2.8	3.5	14.5
104	47	Walter Alexander	104	+1	5.0	4.8	10.0
226	190	W. S. Yeates	195	—	17.4	8.9	19.6
96	67	West Yorks. Ind. Hosp. (USM)	96	—	5.6	5.8	13.7

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Philip Coggan on a plumbers merchant's move into a higher league

Wolseley's cardinal virtue

WOLSELEY, the heating and plumbing merchant, must have one of the lowest public profiles of Britain's larger companies.

Yet over the past 18 months, it has quietly gone on an acquisition drive which has pushed its market capitalisation to £400m and moved it into a bigger league.

The largest buy was the builders' merchants to electrical components group Grovewood Securities which Wolseley bought from BAT Industries for £109.3m. A full year's contribution from Grovewood should push pre-tax profits from £50m to £75m this year.

But despite the solidarity of its core merchanting business, Wolseley has never had a clear market image—"Nobody knows what it does," confessed one analyst—and when the Stock Exchange graded stocks for the post-Big Bang trading systems, it originally classified Wolseley as a gamma, the lowest possible rating, (before finally putting it into the beta category).

In part, that was because investors had been reluctant to sell their shares. "Institutions cling to the shares like gold dust" believes Mr Mark Stockdale of Savory Milln. "I suppose it was a back-handed compliment," admits Mr Jeremy Lancaster, Wolseley's chairman.

The 50-year-old Mr Lancaster, who succeeded his father in 1976, is very much his own man. The rather startling appearance of Wolseley's recent annual reports is witness to his love of modern art. And he has strong opinions about Wolseley, which he want to turn into one of Britain's major industrial holding companies.

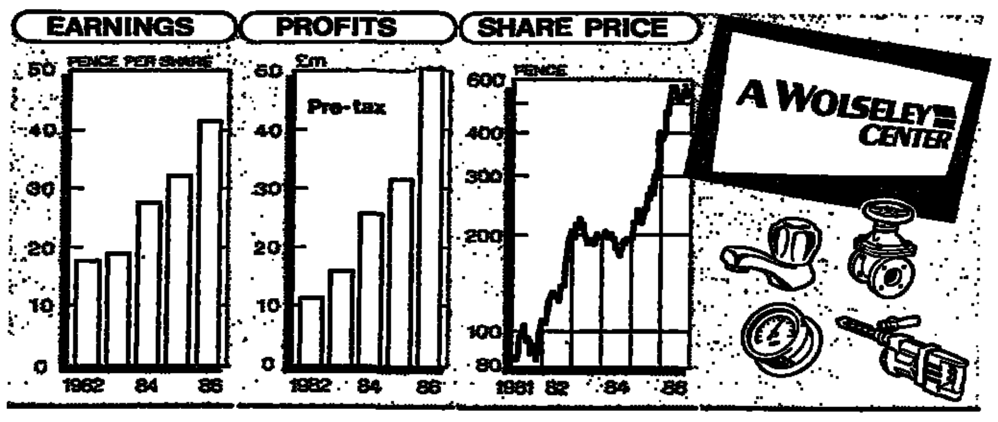
While some analysts may doubt whether Wolseley will ever be seen in the same league as BTR, there is no doubt that it has enjoyed strong growth over the past few years.

Pre-tax profits have risen from £11.1m in 1982 to £50.2m in the year to October. Earnings per share climbed 29 per cent last year to reach 41.4p.

Wolseley has been in existence for nearly a century, having abandoned car production in 1901 because it felt the internal combustion engine had no future.

In the 1950s, it was known as the Wolseley Sheep Shearing Machine Company but it was in the early sixties that it took its first steps towards its modern form, when it acquired the Oil Burner Components (OBC) chain as part of a merger with Nu-Way Heating Plants.

Almost by accident, the group had tapped into the early stages of the growth of central heating, aided by the Clean Air Acts and a rising standard of living. OBC's original 11 outlets have become 269 Wolseley branches today.



Plumbing was added to the range in 1974 but Wolseley has never deviated from its policy of selling to the trade rather than directly to the public. Distribution is its strength. Goods are sent from one o fits three regional centres each morning with a computerised office ensuring that each outlet is supplied twice a week.

It is an efficient system which cuts down on wasted stock (special items can be kept at regional level and sent to the outlets only in response to a customer order) and allows Wolseley to exploit its buying muscle. Its size means that it is the major customer of most of its suppliers, with all the opportunities for obtaining discounts that implies.

Each time the Wolseley management has started to worry that the limits on its UK outlet expansion have been reached, it finds itself able to supply smaller areas. Mr Lancaster points proudly to the map in Wolseley's annual report which shows its UK locations, scattered from Aberdeen to Truro.

Those outlets were expanded by 39 in August 1985 when Wolseley bought the Plumb-Center chain from Marley for £8m. The OBS and Plumb-Center images are now being merged under a white tap logo.

Wolseley diversified across the Atlantic in the early eighties when it bought Ferguson Enterprises, a Virginia-based merchant, for £17.1m.

That immediately gave the group 54 outlets in the US and the long, patient building process was able to start again. Because the US operation has less presence in the market than its UK equivalent, it cannot always depend on increasing profits by exploiting its buying muscle. So it tries to increase sales by using a marketing technique described by Mr Angus Phaure of County Securities as "brilliantly simple."

Each day, Ferguson's employees are not allowed to go home until the next day's deliveries are fully loaded. That means that the company can be making on-site deliveries when competitors are still doing their morning loading. The customers appreciate the service and stay loyal.

The US business lacks, because of the distances involved, the regional distribution centres that characterise the UK operaton. Each branch has its own buyer, which places a lot of emphasis on the business acumen of the local manager. As a consequence, and in stark contrast with the UK, Ferguson recruits a lot of college graduates to run its merchant centres.

Ferguson is not Wolseley's only recent US purchase. In November 1985, it paid $77m for Carolina Builders Corporation, a timber merchant, which had increased its pre-tax profits by 371 per cent in the previous four years. The deal helped increase US outlets to 121 by the end of this year.

But the most significant acquisition was the £109.3m purchase of Grovewood. Because of its low public profile, Wolseley was not everyone's favourite to take the group over, but in fact there was a remarkable fit between the two companies. Most obviously, Grovewood possessed two firms of builders' merchants, Ray and Harris, whose products were slanted towards the heavy end of the trade and thus provided a valuable add-on to Wolseley's range.

There were other similarities between the groups. Since its sheep-shearing days, Wolseley had been involved in agricultural machinery, providing around 5 per cent of group turnover and profit. But its manufacturing activities were hit by the agricultural depression, whereas the Grovewood companies, Vapormatic, Sparex and Dilhurst, being involved in spare parts distribution, were benefiting from farmers' decisions to try to maintain their ageing machines.

The Grovewood acquisition also added companies which might not on the surface seem logical fits into the Wolseley portfolio. However, the new electrical division's main components, Ashley Accessories and Rantin, are both companies closely associated with the building and *construction industries*, the former supplying electrical wiring accessories, the latter electrical sockets and plastic trade mouldings.

There were some non-related businesses in the package, notably in technical services. Most acquiring companies would be expected to sell off the surplus, but that does not fit in with Mr Lancaster's philosophy. "I've never believed," he says, "that companies are commodities to be traded in."

Although he is well-liked in the City—"He is a man you can trust," believes Mr Mark Stockdale of Savory Milln — Mr Lancaster dislikes personality cults.

He says the group has management strength in depth, such as Mr John Chislett who once was his boss and now is in charge of the US operations, and Mr Fred Pickles, who joined the group from Grovewood and is now chief executive of the electrical and consumer products division.

What does the future hold for the Wolseley team? Fill-in acquisitions in the newly-formed post-Grovewood divisions seem likely, as does a further move into the US, which Mr Lancaster would like to see move from its current third of turnover to around a half.

Rival bidders lift stakes in LCAH

MAI and Piccadilly House, rival suitors for control of London and Continental Advertising Holdings, have both raised their stakes in the outdoor poster group.

MAI, which has launched a full offer at 118p a share, now holds 27.9 per cent of ordinary shares. Australian-controlled Piccadilly House, which now has four directors on the LCAH board, holds 19.1 per cent and options over a further 10.8 per cent.

LCAH shares were unchanged at 120p yesterday while MAI shed 5p to 426p where its 27-for-100 alternative values LCAH shares at 115p.

ARENSON GROUP: Mr Archy Arenson, chairman, told AGM that he looked forward to reporting general improvement in financial affairs both at interim and final stages of current year.

UK COMPANY NEWS

Pains—Wessex helps to boost Chemring by 87%

BY ALICE RAWSTHORN

Chemring Group, the defence supplier, watched its share rise by 35p to 615p yesterday on the announcement of an 87 per cent increase in pre-tax profits to £3.05m in the last financial year, buoyed by the acquisition of the pyrotechnics manufacturer, Pains-Wessex.

The acquisition of Pains-Wessex—which was purchased for £14m from the US holding company, Allegheny International—was completed in January. Although the Pains-Wessex plant was hit by a fire in February and its export markets suffered from a downturn in demand from the Middle East after the oil price collapse, it made a substantial contribution in its first 36 weeks with the company.

Pains-Wessex produced pre-tax profit of £1.29m on turnover of £9.9m in the year to September 30. According to Chemring's chairman, Mr Ian Fairfield, it has now fully recovered from the fire and has recently experienced an improvement in demand from the Middle East.

Since the acquisition Chemring has streamlined the management and cut operating costs. The total savings are rather higher than expected at around £1m a year.

Chemring itself mustered underlying growth in pre-tax profit of around 8 per cent, producing profit of £1.76m on turnover of £9.09m. Most of its growth has been generated by exports to countries within NATO.

Earnings per share increased to 54p—or to 51.1p if fully diluted—(56.8p) and the board proposes to pay a dividend of 16.5p (13.5p).

Mr Fairfield described the prospects for the current financial year as encouraging, because we have seen an improvement in demand and the full benefits of the acquisition will come through.

● comment

The benefits of Chemring's acquisition of Pains-Wessex were so well signalled at the time of the acquisition, that the City's belated compliment—of a 35p increase in the share price to 615p yesterday — seems rather superfluous. Indeed the acrobatics of the share price disguise a rather messy period for Pains-Wessex. The debris from the fire has been swept away, but the collapse of its Middle East markets—which represented 30 per cent of sales before the oil price crisis—will take rather longer to mop up. That said the cost benefits for Pains-Wessex are, at £1m, rather than £500,000, rather better than expected and may improve again this year. With projected profit of £4.3m for the current year, shares are fully valued on a prospective p/e of 10.5.

Newman Tonks in £7m US expansion

BY STEPHEN THOMPSON

Newman Tonks Group, the Birmingham-based manufacturer and supplier of products, materials and services to the building and engineering industries, yesterday announced a $10m (£7m) US acquisition and said it had achieved the profit forecast during its successful defence against McKechnie Brothers last March.

Newman has purchased Quality Hardware Manufacturing Inc, based in Hawthorne, near California, which manufactures quality branded hardware products for architectural and builders supply markets throughout the US.

Newman is paying for Quality via a vendor placing of 4,608,720 new ordinary shares at 152p a share. They were placed yesterday with clients of Newman's brokers, Phillips & Drew and Albert E. Sharp. The shares will rank pari passu with existing ordinary shares and qualify for the final dividend in respect of the year to October 31.

On completion of the deal, Newman's issued capital will rise from 44.42m shares to 49.03m shares.

Newman said yesterday that with its Monarch subisidary Quality would enable Newman Tonks to become an even more significent force in the US hardware market.

In a letter to shareholders Mr T. C. Frankland, Newman's chairman, said Quality "fitted exactly in Newman Tonks' chosen field of branded products" and "was a significant step in stated policy of achieving growth organically and by acquisition.

Newman said yesterday that it was estimated that the company had achieved its pre-tax profit forecast for the year to October 31 of at least £8.15m and earnings per share of approximately 12p. On the basis of these estimates, the board recommended a final dividend of 4.2p, making 7.2p for the year.

Poor summer hits Jurys Hotel

THE IRISH hotelier, Jurys Hotel Group, reported a fall in pre-tax profit for the six months to October 31 1986 from Ir£1.62m (£1.53m) to Ir£1.22m.

It was stated that despite the severe setback in trading during the summer months, the company was confident that prospects remained bright. The Cork hotel projects and the first phase of the Dublin projects are due for completion in April 1987.

Mr N. G. Weldon, the chairman, was satisfied that if more favourable trading conditions were obtained in 1987-88 the company would be well placed to take advantage of whatever opportunities arose. Business for the second half was considably less tourism-dependent than for the first half, and the company was hopeful that sales revenue for the latter half would not be affected to the same extent as that experienced for the summer months.

Turnover for the period fell from £8.77m to £8.25m and the trading profit was £1.39m (£2.06m); depreciation charged was £262,000 (£244,000) and net interest received was £89,000 (debit £192,000). Tax (not comparable with the charge for the same period in 1985) was £170,000 (£151,000) leaving net attributable profits of £1.05m (£1.47m) and net earnings per share of 5p (9.2p).

An interim dividend of 1.5p has been declared compared with a single payment of 3.5p for the previous year.

Half-year profit rise boosts Brookmount's confidence

Brookmount, property developer, saw its pre-tax profit rise by more than 95 per cent from £260,000 to £508,000 in the six months to September 30 1986. Turnover in the same period fell from £1.9m to £1.6m.

The directors of Brookmount, which came to the USM in January, said that prospects for the company's future expansion were most encouraging and they looked forward to the full year's results with confidence.

They said that during the half year good progress had been made on the developments under construction at Cambridge, Chesterfield Gardens and New Malden. Plans for further developments at Uxbridge and Brooklands were well advanced and existing developed properties at the latter site had been sold for £16.75m.

Since March 31 the company had made planning applications on sites at Stockton, Chelmsford and Cleethorpes — all relating to retailing and, where possible, leisure and other activities.

Brookmount had also entered into a joint venture with Blue Circle Property Holdings to develop a 355-acre site outside Luton into a leisure, sports and exhibition complex.

The shopping centre investments continued to trade successfully and significant rental growth was expected at the next rent review in October 1987. A redevelopment of the retail warehouse investment would increase rental income and investment value substantially.

Administration costs rose to £290,000 (£245,00) while income from fixed aset investment fell from £73,000 to £50,000. Interest and similar charges accounted for a total of £185,000, down from £380,000 last time.

After tax of £182,000 (£73,000), earnings per share worked through at a weighted average of 6.9p (5.8p). The declared interim amounted to 1.3p (nil).

The directors stated that had the company's share capital been dealt in on the USM throughout the year to March 31 1986 they would have expected to recommend dividends totalling 3.5p for the year.

Widney falls to £0.39m but dividend up

A further downturn in the second six months of 1985-86 left Widney, a general engineer, with full year profits of £390,000 pre-tax, a fall of £216,000 on the previous year's £606,000.

However, an increase in activity since the spring has been maintained in the first quarter of the current year and turnover is expected to be up by over 20 per cent compared with the corresponding period of last year.

Meanwhile, the dividend for the year to September 30 1986 is being stepped up from 0.53p to 0.8p net, the final being 0.47p.

SOUNDTRACS, maker of audio mixing consoles, increased its profits to £532,648 pre-tax over the year to November 7, 1986. That compared with last year's £328,848 and with the directors' forecast of £500,000 when the company came to the USM in June.

The current year began well and the directors anticipate further growth in profits.

Turnover for the past year totalled £2.63m (£1.81m). Earnings amounted to 3.64p (2.28p). The dividend is 1.2p net per 5p share.

Baker Harris beats prospectus forecast

Baker Harris Saunders Group, the specialist City-based firm of commercial estate agents and property advisers which came to the market in October, announced a pre-tax profit of £774,000 for the six months to October 31 1986 compared with a profit of £800,000 for the whole of the previous year.

Mr Richard Saunders, the chairman, said the result was well on target with the forecast profit before tax of £1.6m for the year ending April 30 1987. He said the company was still experiencing high levels of activity following "Big Bang" and the directors felt confident that the forecast level of earnings for the year ending April 30 1987 would be achieved.

Instructions, he said, were being received for a variety of work. Since the flotation the company had been appointed as development consultants on two large City development projects.

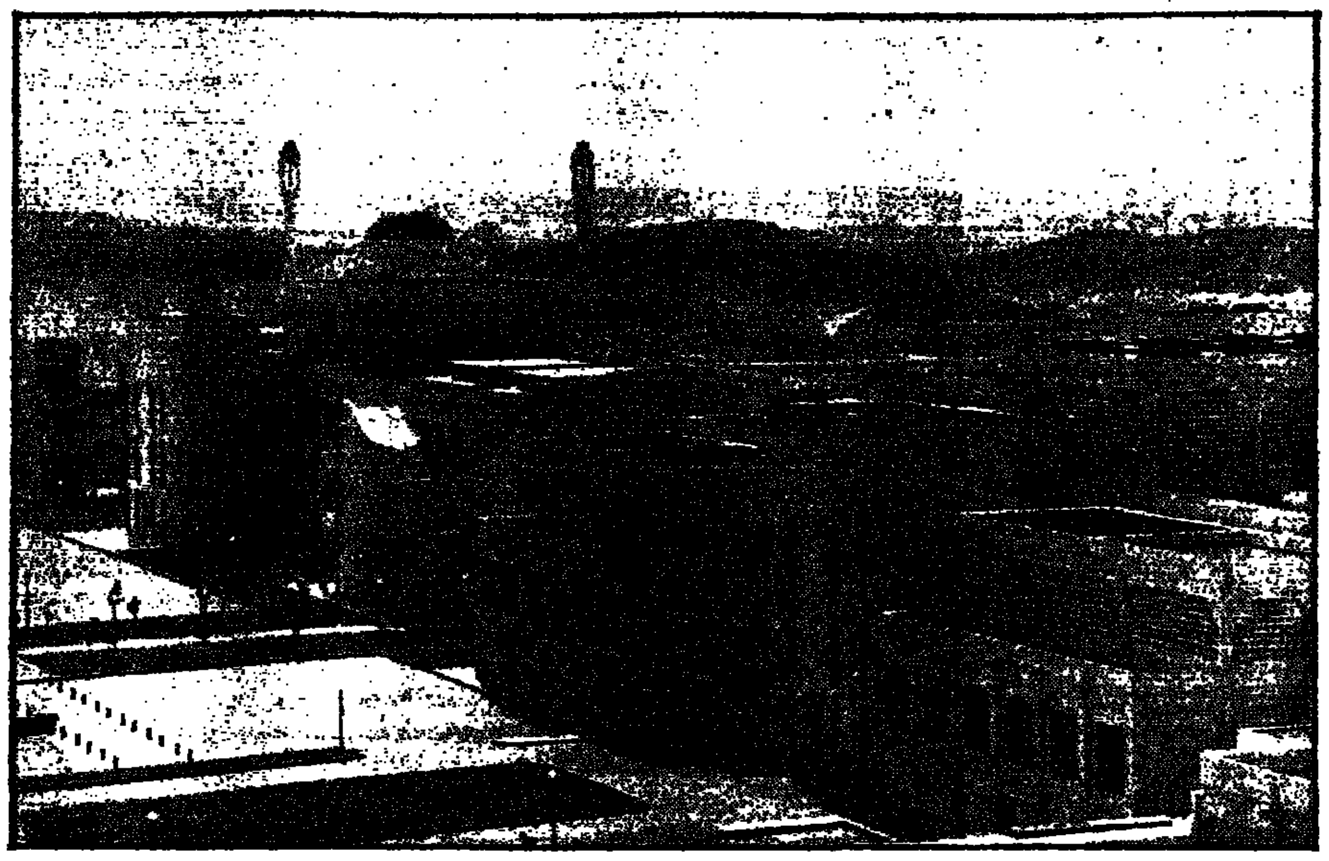
Turnover for the six months was £1.68m against £2.35m for the whole of 1985-86. Tax took £294,000 (£349,000 for the year) leaving a net profit of £480,000 (£451,000) and earnings per share of 5.6p (5.3p). No interim dividend is proposed but a final of 2.0p is forecast for the year ended April 30, 1987.

FINANCIAL TIMES SURVEY

Thursday December 18 1986

International Construction

The squeeze on the growth areas in the Middle East, because of falling oil prices, has intensified competition in the international construction industry. With mega-projects petering out, contractors have had to satisfy order books with smaller-scale building and infrastructure schemes



The £310m Sultan Qaboos University in Oman, built by UK's Cementation International, is among the last of the present era of mega-projects in the Middle East

A tightening of belts

By Joan Gray,
Construction correspondent

INTERNATIONAL contractors still have their belts pulled in tight. The last of the Middle Eastern mega-projects of the oil boom years are coming to an end, while many of the countries which have the most desperate need for new roads, sewers, dams, bridges, hotels and hospitals have the least ability to pay for them.

There is fierce competition for work in those "honeypot" countries which can pay for work and which are spotted as the most promising new areas, and the great growth market of China, which all the contractors were looking forward to supplying with such eager anticipation, is far from providing a new bonanza.

Contractors from developed countries, accustomed to selling their own skills abroad, are having to face new competition in their own backyards from overseas rivals who are equally short of work.

The backdrop to the whole increasingly competitive international contracting industry is the downturn in workloads as a result of falling oil revenues. Companies that had grown accustomed to building major airports, dams, harbours, universities, hospitals and Olympic sports arenas are now having to bid for small schools, local health centres, football clubs, warehouses and factories and the occasional luxury villas.

The effects of this downturn are felt not just in the contractors' order books, but also in the domestic economies in which they operate.

The £450m stadium which Bovis of the UK and Philipp Holzmann of West Germany built in the desert outside Riyadh, for example—designed to echo the shape of a Bedouin tent in a structure the height of a twenty storey building—created direct exports from the UK alone worth at least £100m.

And of the £227m spent up to September in Oman on the Sultan Qaboos University, which is being built by Britain's Cementation International (part of the Trafalgar House Group), £131m was spent in the UK.

The £2.5bn project to give Cairo a new sewage system—the largest public health project in the world—is currently suffering from funding difficulties. This in itself is estimated as likely to generate export orders worth more than £750m for British manufacturers and sustain more than 20,000 UK jobs.

The picture, nevertheless, is not all gloomy, as Mr Mike Slater, managing director of Cementation International points out.

"We expect a recovery in international workloads in the next two or three years. The Middle East remains a good long term market because, even if oil stays at $15 a barrel, once the trauma of the fall from $28 a barrel is overcome there is scope for developing alternative industries and completing the infrastructure.

"If the oil price stays down it could create new markets in all those third world countries where development has been held back because of the burden of oil prices."

At the same time, China, despite the $80bn it has earmarked for capital construction, has proved a difficult market for contractors.

British companies, particularly, have found it hard to compete successfully with the Americans and Japanese. The only British companies to have achieved notable successes in China are Trafalgar House and Costain.

Trafalgar's half-owned subsidiary Gammon Hong Kong has completed six Chinese contracts starting with a £12m Pepsi Cola plant. Costain, with consultants Ove Arup and its Hong Kong partner Hopewell, is building the £300m Shajiao power station in Guangdong province—the largest Chinese contract won by a British company so far.

Japan's Kumagai Gumi, now one of the world's top twenty contractors with overseas orders worth Y367516m (£1.46bn) has been one of the most successful companies in winning work in China.

The Japanese group already has five or six projects in China under its belt, a success which Mr Motoo Otsuka, a senior managing director, attributes to his ability to fund projects and to his realisation that there are "three problems with work in mainland China."

Firstly, "a deal will usually take ten times as long as in a developed country, so you must be very patient," secondly "you always need financial support," and thirdly "the Chinese people are very tough negotiators; if we don't do business now we may lose the chance five or ten years later."

It is not only in China that the Japanese contractors have been remarkably successful. They have already boosted the volume of construction work they carry out in the US from less than $50m in 1981 to $1.7bn in 1985 and are now interested in expanding in the UK.

The Japanese push to the west has been prompted by a downturn in domestic construction spending which has left them with lightened order books.

Since 1973, construction as a percentage of Japan's GNP has fallen from just over 24 per cent to about 15 per cent this year: a shortfall which the Japanese constractors are determined to make up by increasing construction work overseas.

The future, the Japanese contractors seem to agree, lies with the wealthier developed world, with projects such as a Y15bn electric power plant in Manitoba, Y43bn Hyatt Regency Hotel in Hawaii, and projects in Manhattan worth about $1bn.

Although the market for classical civil engineering projects in the UK is in the doldrums, the market for building offices is booming in the wake of the Big Bang removal of restrictions by the London Stock Exchange.

Kumagai is, for example, acting as overall design and building contractor in a £60m plus project converting the former Post Office headquarters by St Paul's Cathedral in the City into a London headquarters for Japan's largest securities dealer, Nomura.

Kumagai is also working on a £75m scheme to redevelop the former Bourne and Hollingsworth store in London's prime shopping centre, Oxford Street.

Another Japanese major, Shimizu, has just paid £6m for a historic building in London's Old Bond Street and is looking for further prestige London sites.

The Japanese have so far contented themselves with acting as prime contractors, working with local UK companies but it is expected that they will want to cement their involvement in the UK by buying a British construction company.

Just as the Japanese have moved to the US and UK to escape from their declining home base, so UK companies have bought steadily into the US to escape from their declining home market.

A string of British materials companies have bought into the comparatively buoyant US road building market which is a major consumer of aggregates and stone.

Major materials purchases in the last three months include C. H. Beazer's $275m acquisition of the Gifford Hill group, while in September, Redland paid £24m for the Colorado based aggregates company MPM and then in October bought the Maryland-based Genstar Stone for £220m.

In November Tarmac paid £171m for 60 per cent of the Texas based Lone Star's cement, concrete, aggregate and blockmaking activities in Virginia and the Carolinas.

In October, Bovis International bought 50 per cent of America's sixth largest construction management company, Lehrer McGovern, the company responsible for restoring the Statue of Liberty and the immigration centre at Ellis Island.

The move, said Mr Frank Lampl, Bovis chairman, was a "strategic measure to increase the company's presence in the world's largest construction market with a turnover of $370bn a year."

"We are also aiming for the large international projects financed by American multinationals, and which are more likely as a result to appoint an American based contractor," he added.

It has become almost a truism to say that if contractors want to win large projects they must be able to offer finance; increasingly, they must also be able to spot projects in advance for themselves, and suggest how they could be designed, financed managed and operated.

A new fierceness of competition in this area, in what might almost be termed project futures, have emerged this year in the battle for the contract to build the third Bosporus Bridge, across the straits that divide the European and Asian halves of Turkey's commercial centre, Istanbul.

The second Bosporus bridge, now being built by a consortium led by the Japanese company C. Itoh, is not even due to be completed until 1988, but the contractors are predicting that it will become overloaded in 1990.

Trafalgar House—which built the orginal and now overloaded Bosporus Bridge in 1973 and was pipped in its bid to build the second—was the first to get in with a proposal that it could build the third, for £268m, in a joint venture with the Turkish contractor Enka.

Trafalgar and Enka were delighted that their proposal was greeted with approval by the Municipality of Istanbul—and extremely miffed when the Municipality announced the fact, as they had wanted to keep their plan secret for fear of alerting potential rivals.

A second contender already appeared, in the form of a so far unidentified Japanese consortium. This second proposal has also been given approval in principle by the government, as long as the contractor funds, builds and operates it so as to provide a new bridge for as low a cost as possible.

It is a token that international contracting the companies that survive are having to look and plan ever further ahead.

Middle East

Tougher times for the mega-project

THE RECENT recovery in oil prices came too late to save 1986 for foreign contracting companies operating in the Middle East. Faced with sharply lower revenues many countries in the region have virtually frozen payments, blocked any new projects and some have refused to publish budgets for fear that this would imply hard spending commitments.

Yet in spite of this overall climate there has been a number of new contracts—the favoured sectors have been military installations, the odd prestige building and modest (up to $50m) road projects. However, the general pattern has been payment delays and a scaling down of international involvement as local companies win more of the "bread and butter" orders.

The payment fears of foreign contractors in Saudi Arabia were, justifiably, intensified by King Fahd's March announcement that the annual budget was to be delayed five months. Any week now the Kingdom is expected to announce spending plans for the year from December 21 of around $7bn, some 10 per cent below the 1985 level.

Overseas contractors working in Saudi Arabia are estimated to be owed $8bn, with South Korea waiting for more than $1bn. The government insists that there is no payments freeze policy. As a protest would lead to exclusion from future contracts, contractors feel obliged to suffer in silence.

Further souring the dealings of many foreign companies is the collapse of many of the once fashionable joint venture companies—set up with either local companies or sometimes just with an individual. While most will be glad to see the end of these cumbersome arrangements, the disputes arising could well keep the courts (or the accountants) busy for some time.

In the midst of all these difficulties several companies are still making progress. One of these is Dumez of France which has 2,500 workers, 100 Europeans included, on its Saudi payroll. Dumez won the $44m contract to build the Gulf Coordination Council's new headquarters in Riyadh and was the lowest bidder at $80m, on the Makkah Road project.

Contracts believed to be in the offering for early next year include the Justice Palace in Riyadh and the Royal terminal at the King Fahd airport.

The UAE's federal budget was replaced for most of 1986 by monthly expenditure guidelines drawn up on a 1985 minus 30 per cent basis. Local companies are winning almost all contracts being put out for tender.

In Abu Dhabi, which has not published a budget for two years, the sole fillip for the contractors was a series of contracts that were brought forward when the GCC announced that it would hold its November summit in the Emirate. Some $100m worth of work, most of it road projects, were rushed through what has become a labyrinthan tendering/re-tendering process.

One of these GCC-related contracts involved the widening of the road between the Inter-Continental Hotel and the airport and was awarded to a local company which tendered $41m. Another $34m order went to a joint-venture between Pauling of the UK and a local company.

Contractors are hopeful that a number of sizeable contracts will be put out for tender in the coming year. At Al-Ain, the new UAE university site, South Korea's Hyundai Engineering and Construction won the $59m runway construction contract in May but the terminal building and the royal pavilion, together valued at around $45m, are still to come.

Also in the pipeline is said to be the $115m Hodaryat Island bridge contract — Daelim of South Korea were the lowest bidder in the February tender but there is speculation that rebidding may be ordered. Otherwise there is a series of $15m to $35m road projects and the $35m Etisalat telecommunications headquarters.

Dubai has proved to be something of an exception to the regional rule — it has been scrupulous over making payments on time. Several major contracts were signed up in the course of the year and are expected to go ahead.

One of these is the rulers new diwan, a $33m prestige project, which is to be built by two local companies. The largest contract was the $132m Jebel Ali power station and desalination complex which went to Korea Heavy Industries and another significant job was the $41m upgrading of the Dubai to Al-Ain road, which was awarded to the Dubai Transport Company.

In Oman, few construction contracts came up for tender in 1986. Although budgeted expenditures have been held steady in local currency terms, January's devaluation implies that there was a $300m cut to $4.9bn. Analysts expect that construction will fall to half of 1985's $700m.

The position of contractors in Iraq has been greatly affected by the deferral of the country's 1986 debt payments. While the $1.5bn Bekme Dam project is going ahead up to half the payment is to be made in promissory notes. Enka, the Turkish contractor, has tied up with a Yugoslav company, Hidroradnja, for the project. Enka reduced its bid after the tender closed in order to win the deal.

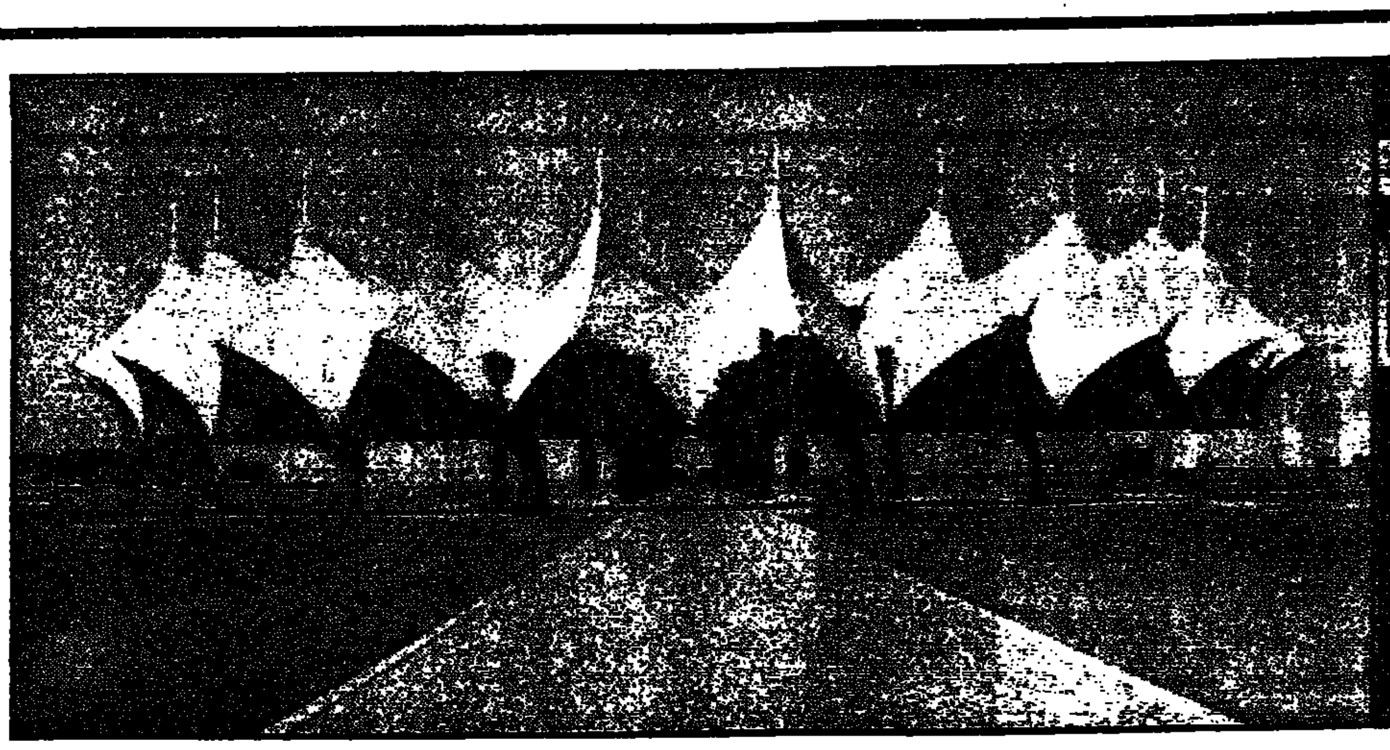
Meanwhile, Japanese companies are concerned as to the outcome of earlier debt referral arrangements. By mid-year some $2.2bn was outstanding and all the signs are that Iraq will seek to roll over those coming due. For Hyundai, Iraq has replaced Saudi Arabia as the major market — over half the company's new orders in 1985 came from Baghdad — although it, too, is having to accept a growing number of promissory notes.

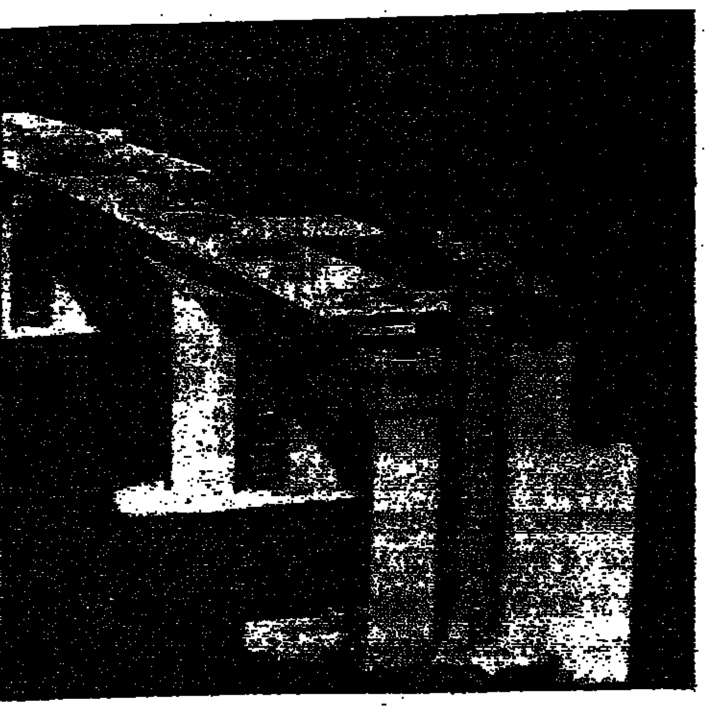
In Libya, Bilfinger & Berger of West Germany has felt obliged to stop work over protracted nonpayments. The company claims that $22m is owed it on the Tripoli corniche road project. Korean contractors are owed very large sums indeed — one, Daewoo, has bought a Belgian oil refinery so as to be able to process cheap crude from Libya as the only hope of getting paid.

The overall situation in the region is therefore not promising even if the year ends with oil strengthening away from its summer lows. Such is the backlog that even with the best will in the world, most additional revenues will already be committed.

As to new projects, the juicier medium-sized ones appear to be going increasingly to local companies leaving the overseas contractors with two options—to drop out of the market altogether and cut their overhead losses or to find ways by which they can afford to bear the enormous financing costs and risks of the few tight-margin major projects on offer.

Terry Povey





The King Fahd International Stadium, Riyadh, Saudi Arabia, designed by British architects Ian Fraser, John Roberts and Partners is nearing completion. It is covered by the largest free span, cable-tensioned fabric roof structure in the world. Above, right: the $700m Saudi Arabian Bahrain causeway which was opened recently. The picture shows the scale of the construction work involved. Dutch contractors Ballest Nedam, builders of the causeway, used British quanity surveyors Gardiner & Theobald International.

The US

Ready for a sharp fall

BUILDING ACTIVITY continued to increase in the US in 1986, but economists predict lower construction rates in 1987 as a consequence of slowing economic activity and unfavourable provisions in the new tax law.

Three years of sustained growth in construction will also take their toll, as vacancy rates rise and are expected to continue increasing, and new construction adds to present availability.

Non-residential construction declined in October by 7 per cent to an annual rate of $73.06bn, making a cumulative decline for the 10 months of 1986 of 3 per cent. The figures would have been even worse except for an 8 per cent increase in school construction.

Mr Doug Handler of Wharton Econometrics says: "There is a glut of private office space on the market. With the huge disincentives from tax reform, we expect a sharp drop in construction, especially in the non-residential category."

Mr George Christie, chief economist for McGraw-Hill Information Systems adds that the worst-hit area will be office building. "The need to absorb upwards of 200m sq ft of surplus space will severely depress new construction for several years," he says. "The adjustment is already in progress, but it still has a long way to go."

He predicts a 2 per cent drop in construction contracting in 1987 to $235.1bn as part of a "cyclical decline of the construction sector that is just beginning." The only good thing is that it will be long and gradual rather than quick and severe.

Salomon Brothers' economists Mr Richard Berner and Mr David Shulman say in a study that the pace of private non-residential construction will decline at an annual rate of more than 15 per cent over the next 18 months. Because the cyclical industry accounted for 8 per cent of the gross national product between the second quarter of 1983 and the fourth quarter of 1985, they expect the downturn to shave 0.5 per cent from GNP in the next 18 months.

The study shows that office-building will have to fall by 50 per cent before supply and demand come into balance. It notes a record 23 per cent vacancy rate for suburban offices and 17 per cent for downtown areas, and the decline is still not over.

"Because so much is still under construction, both the downturn and suburban vacancy rates will be 1.5 to 2 per cent higher by year-end and will remain at that level throughout 1987," it says.

The study assumes a depressing effect of the new tax law on industrial construction, where a lengthened depreciation period from 19 to 31½ years will curtail capital spending for industrial plant.

"The only real offset will come from foreign investment, particularly from Japanese companies that fear that protectionism will keep their domestically produced goods out of the US market."

Building in the utilities field will also be hard hit as companies adjust to their nuclear power woes, including excess capacity where there have not been regulatory problems.

"Virtually all new construction in electric power generation represents either the completion of nuclear facilities begun in the 1970s — which recently surged as nuclear regulatory problems subsided —or the addition of transmission and distribution equipment."

The one thriving area in construction was retail stores, but by 1985, new building started to outstrip demand. Retailers moving into new markets absorbed new facilities, but the consequent excessive retailing activity is causing sharp competitive pressures that will hurt either the new or existing retailers. The Salomon study predicts a $6bn, or 25 per cent, decline in commercial and retail construction.

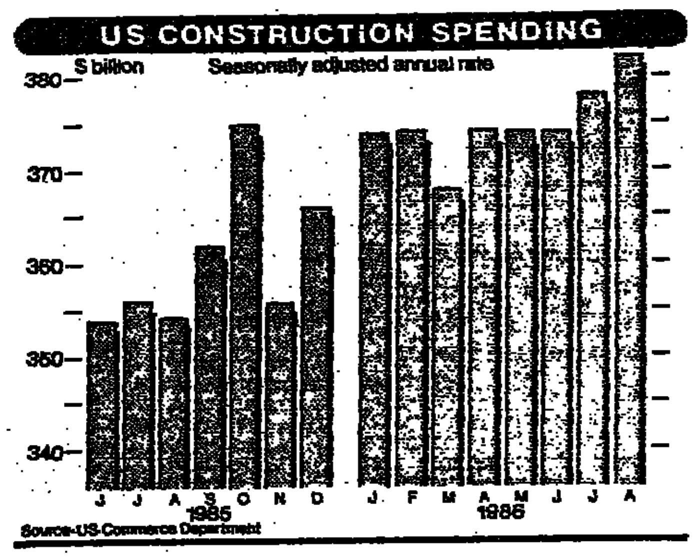
These trends are expected by economists in spite of lowered costs of construction and declining interest rates. In 1985, construction costs rose a meagre 1.5 per cent, the lowest in 15 years, according to the Cost Information Systems Division of McGraw-Hill Information Systems.

The survey of trade unions, contracts and materials' suppliers noted construction cost advances of only 0.7 per cent in the Pacific coast and Rocky Mountain states and 1.4 per cent in south-eastern and south central states. Even metropolitan New York saw only a 2.8 per cent gain in construction costs in 1985.

Similarly, the Salomon study did not think construction would be sensitive to interest-rate declines. "Too much capacity is either currently available or is in the pipeline to induce an increase in the level of activity. . . . Other sectors will have to expand more rapidly," the study concludes.

"To produce that compensating growth in other sectors, interest rates will have to tumble further."

Frank Lipsius



US Construction Contracts

		Non-residential	Residential	Other	Total
1986	1st quarter	76.4	114.0	39.7	230.1
	2nd quarter	80.4	122.7	42.5	245.6
	3rd quarter	78.4	121.6	41.5	241.5
	4th quarter	77.5	121.5	41.2	240.2
1987	1st quarter	76.5	120.8	40.0	237.3
	2nd quarter	75.3	120.6	39.7	235.6
	3rd quarter	74.3	120.4	39.9	234.6
	4th quarter	73.3	119.2	40.5	233.0
1986		78.2	120.0	41.2	239.4
1987		74.8	120.3	40.0	235.1
% change		− 4	—	− 3	− 2

† Seasonally adjusted annual rates.

Source: Dodge Reports, McGraw Hill Information Systems.

US Contract Values

(constant 1982 prices)

	1986 preliminary ($bn)	1987 forecast ($bn)	% change
Non-residential	72.22	66.80	−8
Residential	100.30	96.60	−4
Other	35.65	33.42	−6
Total	208.17	196.82	−5

Source: Dodge Reports, McGraw Hill.

Oman

Building budgets tightened

THE £310m Sultan Qaboos University and Hospital that Cementation International is building in Oman is one of the last of a spate of mega-projects in the Middle East.

With the downturn in oil revenues and the completion of a more developed infrastructure, projects in the region in future are likely to concentrate on smaller-scale development and on diversifying the economy.

But, even though it may be one of the last of the big projects, almost everything else about the university and hospital illustrates the way contracts in the Middle East are likely to develop.

It was built to a tight timetable and a tight budget; designed for practicality rather than monumental effect; and it was a turnkey contract designed and built ready to be handed over complete down to the last laboratory bench and bougainvillea.

With its fountains, courtyards, fretted screens, palm trees and cool arched cloisters, the university has an air of Arabian Nights exotica about it. But it was created to a tight cost.

The mosque, for example, with its blue and gold titles, twin minarets, fountained courtyards and silk carpet, with space for 2,000 people, creates an atmosphere that makes builders drop their voices to a whisper.

"But you can never bring in a job this size to the clients' budget unless they are realistic," said Mr Mike Woodham, Cementation's resident manager.

"On the mosque, they had to cut from a design that would have cost £5m to one that cost about £1.5m.

"They cut back things like the marble flooring by replacing it with polished terrazzo—marble chips embedded in cement — at 10 per cent of the cost. They finished the outside in plain white faced cement rather than marble, and used panels of tiles instead of covering it with solid blue and gold."

Designing the university also presented architects YRM International with a complex labyrinth problem. Although male and female students are allowed in on merit, they have to be kept strictly separate in accordance with Islamic and Omani tradition, and have to approach classrooms from different directions.

So the university was built with two separate levels of walkways, linked by a network of screened spiral staircases leading to opposite ends of the corridors.

The university also had to be built to a tight timetable. Just over four years were allocated to create a campus big enough for 10,000 people with sports halls, libraries, residences, staff housing, clubs and TV studios.

All this came from a contract signed on a bare blueprint plan with delicate wash drawings, and on a site that had to be blasted from bare rock desert.

"At its peak we were turning over work worth £9m a month," said Mr Woodham. "It was not building it that was difficult but organising a contract at that speed and volume."

The project was driven by Sultan Qaboos and his demand that the university had to be open in 1986. It was on target and the first students arrived in November, and the hospital is on target to be completed by 1988.

But the man who was responsible for day-to-day control was the main client, Sheikh Amor, now university vice chancellor and formerly Oman's Under-Secretary of Education.

The university was his brainchild, and he maintained the pace, reassuring academics and refusing to allow committees to create delay.

Since Cementation had to take overall responsibility for administering of the work—right down to ordering the diagnostic scanning equipment and hydrotherapy baths for the hospital—it was possible to co-ordinate phases of construction to dovetail with each other.

This also means that the client gets the benefit of the completed project without having to create a permanent staff to handle organisation.

More reminiscent of the older-style Middle Eastern contract was the way it was awarded. Negotiation and lobbying led to a choice, the omanis choosing the contractor they preferred to deal with and they then agreed a timetable and price.

It was the public relations activities of Mr Mark Thatcher, son of the British Prime Minister, on behalf of Cementation International that brought the project to notice in the UK press.

This sort of process is beginning to change as, with the downturn in oil revenues, competition is becoming fiercer and the much smaller contracts available are awarded to the lowest bidder.

Joan Gray

South Korea

Hoping the worst is over

SOUTH KOREA'S overseas construction industry, once a key plank in the country's export-led industrialisation policy, has suffered greatly from the contraction of the Middle East oil economies. Faced with the threat of bankruptcies, the Korean Government initially sponsored mergers and credit extensions but it now seems less willing to help.

The mid-1970s boom for members of the Organisation of Petroleum Exporting Countries (Opec) created the modern Korean construction company—usually the centrepiece of a family run conglomerate, called a chaebol, that was able to use to good advantage cheap financing and a well disciplined and comparatively inexpensive workforce. Very heavily indebted, many of these companies were unable to survive the intensification of competition and the fall-off in new business seen in the past two years.

Contracts awarded confirm Korea's dependence on the Middle East market. They shot upwards in the mid-1970s from below $3bn a year to peak at just under $14bn in 1981 and 1982. However, last year the new order total fell to $4.7bn—about the same level as that in 1977—with still just over 90 per cent concentrated in the vulnerable Middle East market.

In the first half of 1986, overseas construction orders fell again—by almost 50 per cent. There was some comfort, however, in the growth of orders from the Far East, worth $335m, triple the first half 1985 level. Included in this figure is Hyundai's $27m contract for a residential tower in Hong Kong—the first construction order ever won by a Korean company in the colony.

For the country's economy the contribution of overseas construction to Korea's balance of payments was historically even more important than the crude figures of new orders but today pride of place in earning dollars to fund the import bill and service the debt mountain goes to the car industry.

For most Korean contractors the position is even worse than the overall bleak 1985 and first half 1986 figures suggest. Just over $2bn or 44 per cent of the 1985 total was won by one company, Hyundai Engineering and Construction. In the previous year this imbalance in favour of the construction arm of the country's largest conglomerate was less marked, with about one-third of the $6.5bn contracts going to Hyundai.

One result of the declining orders has been a flood of Korean construction workers returning home—throughout 1985 the average was some 5,000 a month. Once there were 170,000 now the figure is under 100,000 and it is still falling.

Accelerating the return of Korea's overseas workforce is the increasing trend among the surviving contractors, which are having to compete with local or regionally hired labour, to turn to Thailand, Bangladesh, India, Pakistan, the Philippines and other low income Asian states for their workers.

Government concessions given in 1984 allowing up to 30 per cent non-Korean workers on overseas projects have proved redundant in the face of enforced local subcontracting by clients and the commercial pressures on the companies.

The Korean Government was encouraged to some degree to take a tougher anti bail-out line by its success in riding out the great collapse scare prevailing in 1984 and early 1985. In February, however, the interventionist approach came once again to the fore when the country's seventh largest conglomerate, Kukje-ICC, was brought to its knees by its construction arm. In 1984, Kukje had sales of 1.8bn won and earned $934m in overseas sales.

Kukje-ICC was very heavily geared with liabilities some 15 times its capital base. However, after a debt rescheduling, the $470m worth of outstanding contracts were an attractive proposition in an order starved market and the Government was able to arrange with creditor banks for the break up of the group and the sale of the construction side.

The Government has also been trying to boost the domestic construction market—although here the main concern is creating jobs. The largest increase in the 1986 budget was in the housing construction sector, up 245 per cent to 153.3bn won ($170m). Based on what now seems over-optimistic growth forecasts for the economy of 7 per cent, the ministers clearly hoped to see the fruits of their reflationary policy coming through quickly.

However, by the middle of this year analysts were expressing caution as to the extent of the domestic construction boom. While new building permits rose by 18 per cent in the first half of the year, the value of domestic construction orders dropped 5 per cent. Private orders were down marginally while public sector orders dropped a fifth.

In spite of the strong interventionist start it made to 1985, the Government has proved less interested in saving contractors and more keen to put its weight behind successes. The main concern in the industrial restructuring programme announced in July was not construction itself but the heavy construction equipment industry. Samsung and Daewoo Heavy Industries presently dominate this vehicle-related sector and until July 1988 no new entrants will be allowed to enter it.

As a result of this policy, Hyundai Heavy Industries has been told to drop its planned long-term arrangement with International Harvester of the US.

The worst of the rationalisation phase in the South Korean construction industry may now be over. What is emerging is a greatly slimmed down construction sector which industry leaders believe can sustain $4bn a year in new orders, better balanced between the Far East and the Middle East, for the forseeable future. The successful companies are still winning new contracts and many are diversifying into new industrial or service areas. With this in mind, forecasts for the rest of this decade suggest a useful $900m a year contribution from this sector (which compares with a $2.45bn slate in 1982) to the balance of payments.

Terry Povey

Benefits of overseas construction

CONTRIBUTION TO KOREA'S BALANCE OF PAYMENTS
(all figures in $m)

	Overseas construction	Total exports	Current account balance
1975	40	5,003	−1,887
1976	437	7,815	− 314
1977	1,245	10,047	+ 12
1978	2,148	12,711	−1,085
1979	2,005	14,705	−4,151
1980	1,751	17,214	−5,321
1981	2,174	20,671	−4,646
1982	2,452	20,879	−2,650
1983	1,890	23,204	−1,606
1984	1,710	26,335	−1,371
1985	1,150	26,635	− 951

Top ten

in Middle East in 1985

Hyundai	$2bn
Daewoo	$929m
Daelim	$324m
Kuk Dong	$277m
Samwhan	$139m
Samsung	$130m
Miryung	$116m
Hanyang	$94m
Hanil	$89m
Lucky	$84m

New orders

($m) 1985	
Saudi Arabia	1,640
Libya	992
Iraq	1,161
Rest of Middle East	505
South East Asia	289
Africa	52
Other	52
Total	4,691

Source: Overseas Construction Association of Korea.

Japan

Making inroads overseas

JAPAN has more construction companies than the United States, but only half the population.

Since 1973, construction as a percentage of GNP has fallen from just over 24 per cent to about 15 per cent this year. The Government, forced by the realities of the high yen eating into export revenues, is trying to expand domestic demand.

The construction allocation of the Y3 trillion (million million) supplementary budget is about Y1.4 trillion. The government says it has identified Y90 trillion worth of public works construction from now until the year 2000.

Big projects such as Tokyo Bay Bridge, Kansai International Airport and Ajashi Straits Bridge, will be capitalised by the private and public sectors joining forces—the so-called third sector.

The decline in public works spending in the early 1980s turned the industry's attention overseas. But this time it was away from the jittery mid-East or south-east Asian region, and onto the developed countries—especially Australia, the US and Canada.

The recent record of the country's top five contractors, Taisei, Kajima, Ohbayashi Gumi, Shimizu, and Kumagai Gumi, shows the industry winning more contracts for western projects than ever.

Kumugai Gumi is the most aggressive in pursuit of foreign sales. Last year 2.5 per cent of its sales were from overseas projects. A full 40.5 per cent of its order book is for foreign business.

The company is involved in building a Y15bn electric power plant in Manitoba; a Y42bn Hyatt Regency hotel in Hawaii; a Y67bn underground tunnel in Hong Kong; a Y23.9bn highway in Indonesia; and a tourist resort along Australia's Gold Coast—an increasingly popular region with Japanese tourists.

In New York, it has gone into partnership with Zeckendorf for seven projects in Manhattan worth about $1bn.

Japanese companies have generally built Japanese plants abroad. Ohbayashi Gumi, for instance, is building the Toyota plant in Kentucky. But it also beat out the US's Bechtel and Morrision-Kundusen Corporation to win the $82.8m Elk Creek dam project in Oregon.

Kajima is involved in the $550m Greater Los Angeles World Trade Centre. And Ohbayashi Gumi and Kajima have been jointly involved in the revamping of Los Angeles' Little Tokyo area.

Last year, Japanese construction companies signed contracts worth about $1.7bn for US business. That is only 1 per cent of the total US pie, but 18 times as much as it was four years ago, and triple the 1984 figure.

The Americans, who have little opportunity to bid in Japan's closed bid system, are calling foul. Most recently the argument has centred on Kansai International Airport. The large US delegation accompanied by such as Bechtel and Lockheed Terminals failed to win any concessions from the Japanese over phase one.

Japan has told the US that it will be allowed to bid on phase two—but within the traditional closed bid system. This means that all competitors will be picked by Kansai International Airport, the third-sector company in charge.

US companies, or anyone else seriously contemplating competing with the Japanese on their own ground should be mindful of the intricacies of the industry.

Kansai, like other third-sector companies, might reasonably be expected to favour the private companies within it. And government-sponsored public works projects tend to be neatly carved up, with the biggest slice of the pie cut into equal parts for the top contractors.

Last year 83.7 per cent of Kumagai Gumi's construction contracts were awarded by special appointment. For civil projects the figure is 48.6 per cent.

Shimizu, who are the biggest contractors in overall sales, got 84.8 per cent of its construction contracts by appointment, and 40.7 per cent of its civil engineering projects.

The boards of construction companies are sprinkled with ex-government ministers. Kajima's chairman is from Japan National Railways (JNR), as are other members of its board. This increases the likelihood that Kajima will pick up substantial contracts for redeveloping JNR land when the railway is privatised.

The big five are involved in real estate and have bought land for development and sale. And examples, such as the Korakuen stadium, which is being built on a deferred payment basis, are becoming more familiar.

Japanese construction companies will often split large projects between them, rather than going to the death in cut-throat competition. And American fears expressed over Kansai, that even if they were awarded contracts, sub-contractors would be unwilling to work for them, are well founded.

Lisa Martineau

China

Patience wins orders

CHINA IS engaged in a massive catch-up in construction. As the country under Deng Xiaoping's reform programme seeks to modernise its industry, it is having to get to grips with an outdated and inadequate infrastructure which urgently needs overhauling.

It is also sorely short of people with the necessary skills to handle the large-scale projects now required. As such it has been turning to a variety of potential partners elsewhere in Asia and in the West.

The ravages of the cultural revolution left China desperately short of technical skills and line managers. In its sixth Five-Year Plan, which ran into 1984, Rmb 215bn ($80bn) was invested in capital construction. Of that, almost a third was invested in 1984, indicating an upward curve which has continued in 1985 and is still.

In spite of the continuing dominance of heavy construction and civil engineering, more activity is also carrying over to housing and tourism. Over the Five-Year Plan period, living standards rose by 100 per cent and 9m of China's 180m peasants move into bigger new homes each year.

In the cities, too, a major housing programme is in progress. To cope with tourism increasing by about 20 per cent a year, the hotel-building industry is also enjoying a boom. In this sector even the Chinese realise that they must import materials, which they will be doing at a rate of about $1.5bn over the next three years.

It is important when trying to deal with the Chinese to remember that they require genuine long-term commitment from outsiders and the assurance that there will not be one-sided exploitation of their needs.

This is confirmed by Birmingham-based Foseco Minsep a materials technology specialist which has been involved in China for 15 years.

"We based our approach on countless trips and many thousands of hours of negotiations with the message 'we want to co-operate with you and we don't want a short-term agreement but a long-term agreement,'" Mr Terence Wint the company's director of China operations observes.

China is looking for the best affordable appropriate technology and will look anywhere in the world to find it. The UK is at a disadvantage which can be turned into an advantage given the right spirit, he says.

The principle that patience pays has also been learnt by British quantity surveyors, who have been cultivating the relationship since 1979. In 1980 three senior Chinese civil servants were in the UK on a second-ment that was to last three months but stayed for six. Last year, after five years of relative inactivity, an invitation suddenly arrived for a delegation of quantity surveyors to visit and lecture in China.

The visit took place in January this year. The discussions ranged widely but tended to focus on the topic the Chinese are most concerned about — civil and heavy engineering. The visitors were constantly reminded that China is a country still struggling with its basic infrastructure and suffering from shortages of energy, raw materials and communications facilities.

The Chinese State Planning Commission sees the need for the techniques which form the core of quantity surveying: cost control and emphasis on value for money to make best use of available resources. Yet the Chinese approach remains dominated by the reluctance to import even the expertise if they can acquire it otherwise.

During the one-week visit, the British surveyors were made much of. Talks were attended by more than 1,000 Chinese directors and heads of department in eight government ministries, eight central design institutes, and countless provincial institutes, constructions corporations and universities.

Mira Bar-Hillel

International Construction 4

The UK

Switch to privately-funded projects

TWO OF the most exciting developments of the year for Britain's hard-pressed contractors were the Government's decision to allow private funding for a £5bn tunnel under the English Channel and a £200m bridge over the River Thames.

The Channel Tunnel will be built by the Eurotunnel group, a consortium of 10 of the largest construction companies in Britain and France. It is the largest privately-funded infrastructure project in Europe.

But the decision to allow private funding for the Thames crossing at Dartford in Kent —to relieve congestion in the existing tunnels now that the M25 round London is complete —is as significant in its implications.

In the past the Government has refused to allow private finance for major infrastructure projects. Some 90 per cent of civil engineering work has been publicly funded.

Combined with restricted public spending on roads and sewers and bridges, this refusal to allow private funding meant that UK contractors have become chronically short of traditional civil engineering work.

They had also become very frustrated that they were unable to use their entrepreneurial skills.

The downturn in public sector work in the UK has been dramatic. The value of new public sector orders—other than housing — obtained by contractors fell from £7bn in 1973 to £3.8bn in 1985 in constant 1980 prices. Public sector housing orders, which provided a major part of many contractors' workload, fell over the same period from £2.3bn to £650m.

And the outlook for traditional publicly funded work in the UK is little better.

In a forecast of the prospects for 1987, the National Council of Building Materials Producers predicted that public sector non-housing orders, which fell in value by 5.6 per cent in 1985 and showed only 1 per cent growth in 1986, would show no growth at all next year.

Public sector housing orders, which fell by 11.5 per cent in 1986 would fall by a further 10 per cent next year, said the BMP.

The upshot of this cut in public spending has meant tender lists have lengthened to the point at which the Federation of Civil Engineering Contractors quotes a record of 46 companies competing to build one small highway roundabout in Wales.

An average of 23 companies now compete for each public sector civil engineering contract, says the Federation, and between 9 per cent and 12 per cent of its members consistently have no civil engineering work on their books.

Hence the enthusiasm for the Dartford crossing decision if, as the contractors hope, it opens up new possibilities for a hard-pressed industry.

The Government's decision to allow private funding marked a major reversal of policy. It was the first time that the Government had involved the private sector at the start of a major new road project, not only in designing but also in financing.

Previous attempts to fund infrastructure projects privately — notably Tarmac's attempts to build a seven-mile stretch of road in the west Midlands in 1984—had failed.

They foundered on two principal objections: that the higher cost of raising private sector funds outweighed the benefits of accelerating the road building programme; and that their cost would still nominally have to be met from the Public Sector Borrowing Requirement if the private backers failed.

The approval for Dartford marks a change of policy that will give the Government an extra bridge, and extra jobs. It will need up to 5,000 man years of employment in the hard-pressed steel production areas of north-east England, as well for building the bridge.

It will also give the Government a chance to test the benefits of using private sector management for a major infrastructure project at a time when great emphasis is being placed on building and repairing publicly funded roads and motorways.

For the contractors, the major benefit is the hope that it could open up other opportunties. They are already looking at the possibility of building a privately-funded bridge across the River Severn to augment the existing overloaded bridge, and of a barrage to harness the river's tidal power.

Since any company hoping for an upturn in traditional public sector work in the UK is likely to be disappointed as long as a Government committed to restraining spending remains in power, hoping for more privately financed infrastructure projects is one solution.

Turning their mind to other growth areas is another: and, for the UK's contractors, international contracting is not one of them. The value of international construction contracts by UK companies was £1.75bn in the year ended March 1986.

This is a decrease of £704m— or 29 per cent—on the previous year, according to the UK's Export Group for the Constructional Industries. This blames much of the downturn on insufficient overseas aid given by the Government.

But there are some bright areas. Contractors are concentrating on buoyant building sectors in the UK and on other activities: such as mining. This now accounts for 44 per cent of Costain's profits, for instance.

While traditional civil engineering is in eclipse, other sectors have shown strong growth. Private sector housebuilding—which accounts for more than 40 per cent of the profits of George Wimpey, Britain's largest construction company—is booming. More houses were being built in 1986 than any year since 1973 and another record year is predicted for 1987.

In the wake of the Big Bang and on the back of steady growth in real incomes, commercial building has also boomed. The value of orders for building new offices and shops grew by 12 per cent in 1986 and is predicted to grow by a further 12 per cent in 1987.

As Mr Philip Beck, chairman of Mowlem, put it: "The international field is in such a difficult state that we find the main opportunities for big projects are in the UK, with privately funded projects." He quoted the Dartford Crossing, for which his group unsuccessfully tendered for, and Canary Wharf a £2.8bn office scheme being promoted in London's docklands.

Mr G. Ware Travelstead, a US developer, wants to build a "Wall Street on Water," a 12.5m sq ft office extension of the City of London in the derelict Isle of Dogs.

"I want to create an architectural park that will be not just a major financial centre but a place where people will come in 100 years to see work representative of the finest masters of the 20th century," he says.

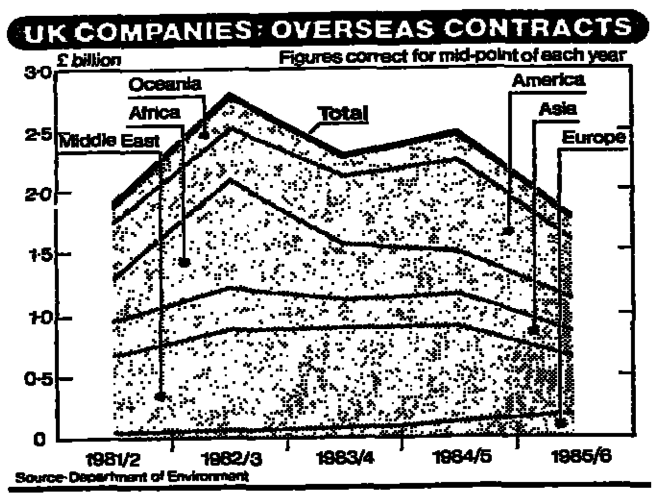
If the scheme goes ahead it will mean as much work for UK contractors including Taylor Woodrow, Laing, McAlpine, Costain and Mowlem—as the UK component of the Channel Tunnel.

"And all that on a site you can walk the length of in 10 minutes," Mr Beck says.

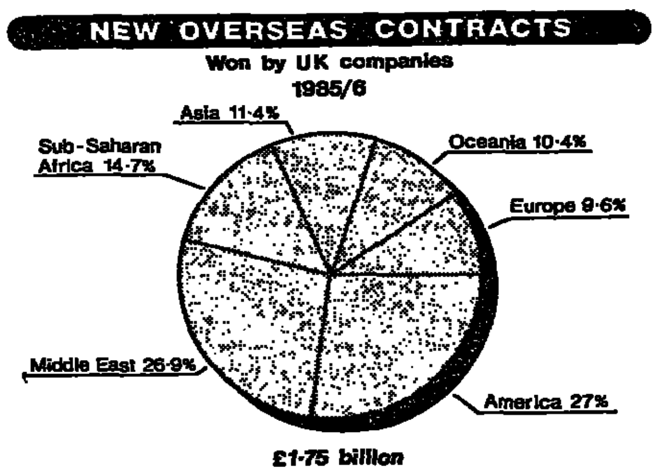
Mr Travelstead estimates that the civil engineering infrastructure of roads, parks, piling and construction platforms for the 850 ft towers proposed will add another £450m to the £2.8bn cost.

This illustrates another major trend in the industry, reported by the Federation of Civil Engineering contractors. It has found that the only buoyant ingredient of its members' workload is the civil engineering required to put in roads and foundations for large office developments, shopping centres and housing estates.

John Gray



Source: Department of Environment



Source: Department of Environment

UK construction output

(constant 1980 prices)

	1985	†1986	†1987	†1988
HOUSING:				
Public (£m)	751	665	600	550
% change	−17.5	−11.5	−10.0	− 8.5
Private (£m)	2,968	3,255	3,395	3,380
% change	− 4.8	+ 9.5	+ 4.5	− 0.5
Total (£m)	3,719	3,920	3,995	3,930
% change	− 7.7	+ 5.5	+ 2.0	− 1.5
OTHER NEW WORK:				
Public non-housing (£m)	3,396	3,430	3,430	3,395
% change	− 5.6	+ 1.0	—	− 1.0
Industrial (£m)	2,702	2,350	2,235	2,235
% change	+14.8	−13.0	− 5.0	—
Commercial (£m)	3,365	3,770	4,220	4,475
% change	+ 6.9	+12.0	+12.0	+ 6.0
Total other new work (£m)	9,463	9,550	9,885	10,105
% change	+ 4.0	+ 1.0	+ 3.5	+ 2.0
Total new work (£m)	13,182	13,470	13,880	14,035
% change	+ 0.4	+ 2.0	+ 3.0	+ 1.0

† Forecast.

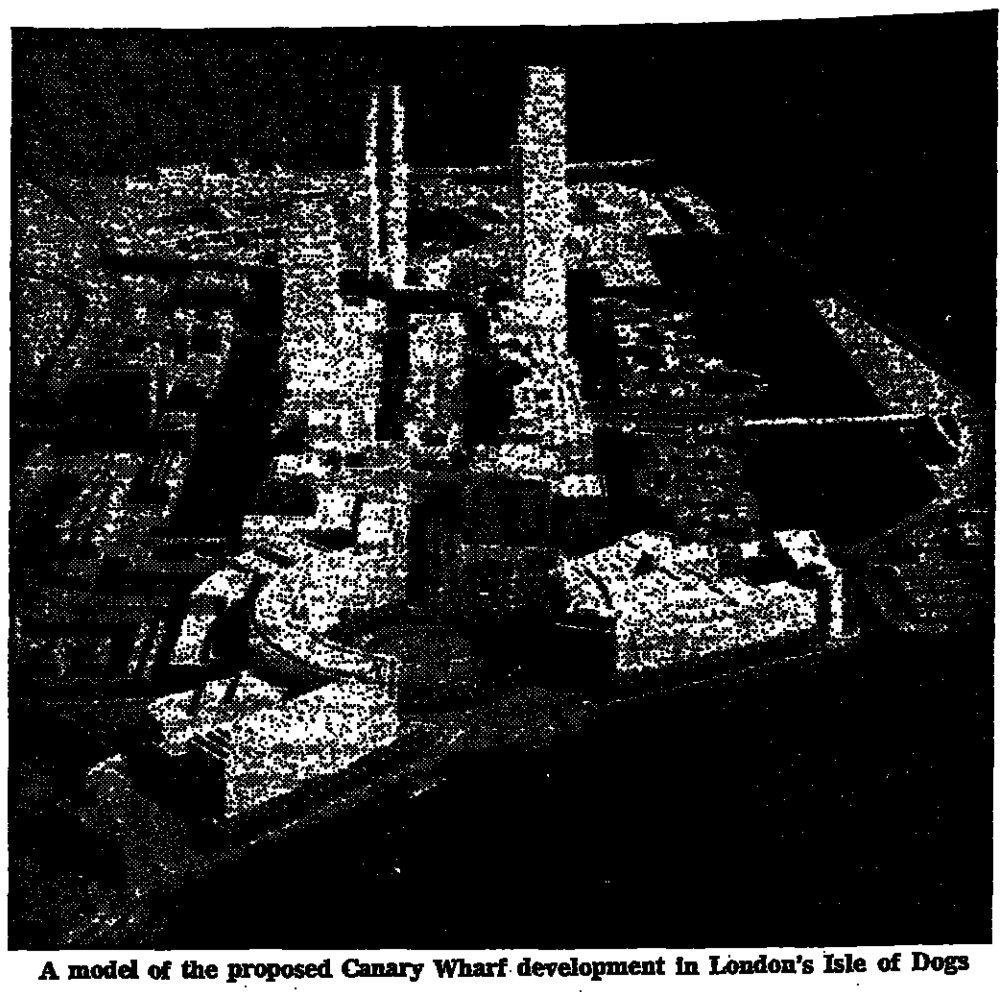
Source: Building Material Producers.

Housebuilding (000s)

	1985	1986†	1987†	1988†
STARTS:				
Public	33.6	30	26	24
Private	161.8	175	165	160
Total	195.3	205	191	184
COMPLETIONS:				
Public	39.1	30	28	28
Private	149.6	160	170	165
Total	188.7	190	198	191

† Forecast.

Source: Building Material Producers.


A model of the proposed Canary Wharf development in London's Isle of Dogs

Channel Tunnel

Formidable hurdles still lie ahead

THE CHANNEL Tunnel represents one of the world's greatest construction projects. But will it ever be built?

Plans to link Britain and France by a 31-mile rail tunnel have been beset by problems ever since the two countries' governments granted the concession in January to build and operate the tunnel to a consortium of British and French banking and construction groups.

Eurotunnel, in spite of the governments' backing, has struggled to establish its credibility with major investment institutions, crucial for plans to raise up to £1bn in share capital.

Both governments insist that the project must be entirely funded by the private sector.

In October, Eurotunnel only just managed to scrape together the £206m it had planned to raise in an international share placing. This has raised doubts about the consortium's ability to raise £750m in a much larger share offer next summer.

Agreements with about 40 international banks for more than £5bn in loans and standby credits are tied to the success of the share sale. If next summer's issue fails, the loan agreements would be in jeopardy.

Eurotunnel takes a different view. It says that in achieving its target of £206m it has cleared one of its most difficult hurdles. It argues that some of the factors which reduced investor confidence in the issue should have been removed by next summer.

The most important of these is the political uncertainty that still surrounds the project, particularly in Britain. Parliament is considering the Channel Tunnel Bill and still has to ratify the treaty to be signed with France.

There are also fears that a British general election could intervene before the project gets underway. A Conservative victory might create a delay but would leave the Channel Tunnel scheme intact; Labour has indicated that it would want to reconsider the project and would probably order a public inquiry.

Eurotunnel says that most of these uncertainties, including possibly the timing of the election, should be resolved by the time of the £750m issue prior to starting the main construction of the tunnel in autumn next year.

Shares will for the first time be available to the public, after which Eurotunnel will seek a listing for its shares on the London and Paris stock exchanges.

The project is, therefore, entering what is probably its most critical phase. The public needs to be convinced that Eurotunnel has the management capacity to attract the finance it requires and also the ability to build and operate one of the world's most ambitious transport projects.

It is here, rather than the political arena that the battle will be won or lost. A key figure in Eurotunnel's efforts to improve its image is Sir Nigel Broackes, chairman of Trafalgar House, the construction, property, hotels and shipping group, who has recently been appointed a non-executive director of the consortium.

Sir Nigel had earlier supported a road and rail scheme rejected in favour of Eurotunnel's proposals.

The consortium has also rearranged responsibilities among its financial advisors, creating a clear order of seniority among the advising and arranging banks. It felt that the equal status of advisors in the run-up to the October placing had complicated decision-making and involved the consortium in too many lengthy meetings when its management was understrength.

Robert Fleming, the British merchant bank, and Banque Indosuez of France have been appointed the principal advisors while there have been a series of new appointments to strengthen Eurotunnel's management team.

On the political front things are progressing slowly but not unsatisfactorily for Eurotunnel. The parliamentary select committee hearing evidence on the scheme has finished a report which left the main elements of the Channel Tunnel Bill intact.

The Bill is now being considered by a separate standing committee which, judging by its composition and the evidence of the first few hearings, is unlikely to make changes which would seriously jeopardise the project.

Meanwhile, the first contracts have been placed as Eurotunel gears up for the start of the main construction next year. These include a £13m order for cement to build precast concrete linings, a £6m order for two tunnel-boring machines with Howden Grosvenor Tunneling and a £1.2m order for rack-and-pinion adhesion locomotives with Hunslett of Leeds.

The main construction contract has been placed with the 10 British and French construction groups which helped found the consortium. They are: Balfour Beatty, Costain, Tarmac, Taylor Wodrow, Wimpey, Bouygues, Dumez, Societe Auxiliaire d'Entreprises, Societe Generale d'Entreprises and Spie Batignolles.

At least 30 per cent of the construction work, however worth £2.6bn at 1985 prices, must be placed with other companies.

EEC legislation also requires that any subcontract worth more than Ecu 1m (£700,000) must be put out to international tender and advertised in the official journal of the European Community.

The UK Department of Trade and Industry has established a small team of civil servants to advise companies and try to ensure that as much of this work as possible goes to Britain.

It is the first time that such a team has been set up to support a single project and underlines the importance the UK Government attaches to the tunnel and the jobs it is likely to create during the six years of construction.

By the middle of last month Transmanche Link, the construction arm of Eurotunnel, had sent out 39 tenders for contracts in the UK and 18 in France. The volume of orders involving construction equipment, cement and aggregate, and ultimately the sophisticated electronic signalling and railway equipment, will steadily increase as construction gets under way.

But before then Eurotunnel must complete the main funding. There is still a lot of work to be done.

Andrew Taylor


Sir Nigel Broackes, chairman of Trafalgar House: he plays a key role in Eurotunnel's efforts to raise its image

Eurotunnel Costs and Financing

COSTS

	£bn
Construction and equipment costs (September 1985 prices)	2,595
Provision for additional works	0.109
Overheads and other costs to commencement operation	0.389
Inflation charge	0.586
Interest	1.057
Total	4.736
FINANCING	
Equity:	
Already issued to founder shareholders	0.046
Placing with international institutions	0.206
Public offer for sale	0.748
Total equity	1.000
Interest receivable on cash balances	0.040
Loans drawn from main facility	3.696
Total	4.736

Leaves £304m undrawn from main loan facility with a standby facility agreed with banks for further £1bn.

France

Bouygues' expansion continues

THE appetites of the Bouygues construction group have become gargantuan. In the last 12 month,s through a series of acquisitions and diversification moves, Mr Francis Bouygues, the founder and chairman of the French group, has turned his company in what he claims to be the world's largest construction company.

Bouygues expects its sales this year to total as much as FFr 46bn (£4.9bn) following its take-over of Screg, France's second largest construction company. But if that were not enough, Bouygues has acquired a 34 per cent stake in Spie-Batignolles, a major rival French civil engineering company controlled by the French Schneider group. Indeed, Mr Bouygues has made it clear he wants close collaboration with the rival, although Schneider and Spie have indicated they did not wish to become absorbed in the Bouygues empire.

The Screg and subsequent Spie moves reflect Bouygues' efforts to expand diversifying into new fields but at the same time Consolidate its position as a leading international construction and civil engineering group. Its new diversifications include a joint venture with the Tapie group in the consumer battery market and the acquisition this autumn of control of one of the leading Parisian department stores Aux Trois Quartiers.

Bouygues is also keen to develop a presence in the new deregulated French television broadcasting market and has announced intentions to invest up to FFr 500m to acquire a stake in TF-1, the French national television channel due to be privatised by the government next year.

At the same time, Bouygues has continued to develop its international construction and civil engineering businesses. The company is one of the main French partners together with Spie Batignolles in the consortium to build the twin-bore tunnel across the Channel. Indeed, Bouygues played an extremely active role in promoting the Eurotunnel scheme during the competition for the fixed-link contract.

In the UK, Bouygues has also entered a joint venture with Trafalgar House, one of the rival groups in the channel fixed link competition, involving water treatment and distribution for Britain's publically-owned water industry.

Bouygues and Trafalgar House have indicated that they would seek to collaborate on other worldwide projects.

In spite of the recession in the French building sector and the slump in new large international construction orders, Bouygues has managed to perform better than most of its domestic competitors, thanks to the scale and diversified nature of its businesses. However, the French construction and housing market appears to be making a tentative recovery. The French conservative government is attempting to revive this key sector of the domestic economy by increasing fiscal incentives for home ownership and construction.

Rationalisations and restructurings at several other large French construction groups have also started to bear fruit, with the industry in general now looking in better shape. This has also been reflected by the return to favour on the Paris Bourse of several construction company shares.

The Government has also continued to give active support to large French construction and civil engineering companies to win a fair share of the now declining number of major new international contracts. Spie, for example, recently won an order with a Japanese consortium to construct a $575m gas pipeline in India.

The deal, one of the few big pipeline projects since the collapse of oil prices, broke new ground in soft loan financing.

Indeed, France for the first time extended a monobloc loan instead of the traditional mixed treasury and commercial credits used by France for export financing. Such a loan has advantages for the contracting country, and groups under one issue the traditional mixed-credit package.

The Indian deal also reflects the interest Bouygues is showing for Spie. Its pipeline laying business would complement Bouygues' offshore businesses which were expanded when the group took over the main offshore activities of the French Amrep oil concern after it was forced to file for bankruptcy. Spie's strong electrical businesses would also reinforce those of Bouygues.

As a tribute to his own success, Mr Bouygues has built himself a FFr 500m headquarters near Versailles. Surrounded by parks and fountains, the project represents Bouygues' corporate Versailles.

His latest acquisitions and diversifications include offshore services and construction, hospital equipment and construction in the US, water distribution, electrical system businesses, real estate and the sale of residential property by catalogue, construction and civil engineering, not to mention retailing and television broadcasting.

The question many financiers in France are now asking themselves is when and where will he stop expanding.

Paul Betts


Mr Francis Bouygues, founder and chairman of the French construction group which bears his name: sales this year heading for £5bn

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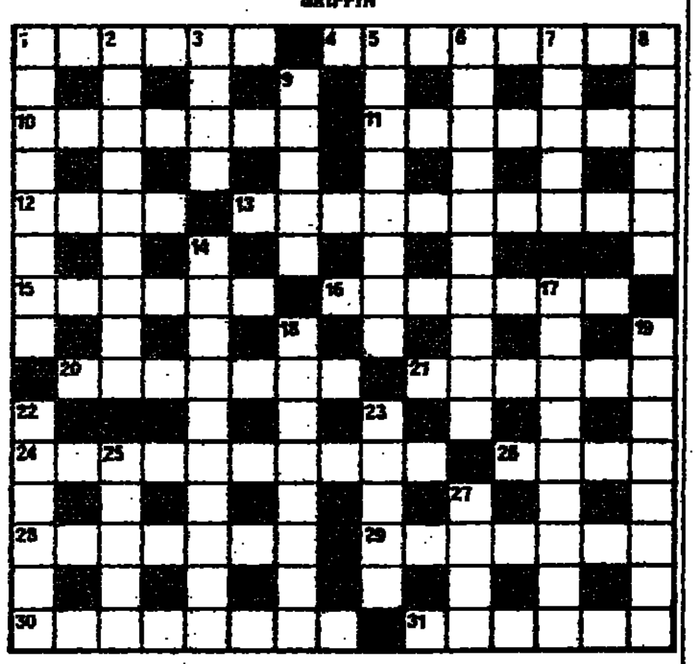


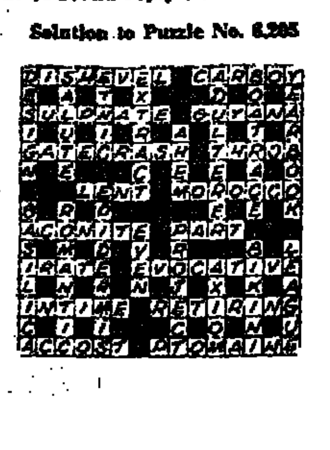
ACROSS

1 Intense fire damaged church (6)
4 Ties ordered by assistant judge (8)
10 Fitting in Inca revolutionary as team leader (7)
11 Before jockey loses heart measure fence (7)
12 Type a letter or two first (4)
13 Colonist follows Potter's conversion to church member (10)
15 One lacking love damaged cart after drink (6)
16 Steal piano left in our new home (7)
20 The stupid fellow goes outside to get dressed (7)
21 Wandering past the Parisian principal (6)
24 Place comic masquerading as partner in crime (10)
26 Cheese on cooked rib, an excellent starter (4)
28 Sound pleased about the girl he's chasing (7)
29 Plans to develop cacti in a back street (7)
30 Left in Studio E, perhaps, a lonely place (8)
31 Baffled to see duck put in a box outside (6)

DOWN

1 Penalty for including such a variety of colour (8)
2 Claim pier should be rebuilt, based on practical experience (9)
3 The fellow in the top hat begins (4)
5 He deliberately damages boats over half of Europe (8)
6 Lacking resolve, Tories rule badly (10)
7 Ian's strange degree of inner personality (5)
8 Jack's back, in time to make mistakes (6)
9 Sleep soundly? (5)
14 As good as Brown, thanks to Hill (10)
17 Fair trial arranged after I upset Pam (9)
18 Leading doctor has cleared off, it's announced (8)
19 The journalist, rising, stopped dead (8)
22 Scamp running around high-class college grounds (6)
23 Pointed to a gash on the horse's tail (5)
25 Look to motoring organisation to return her (5)
27 A sound reply (4)

Solution to Puzzle No. 6,205



AUTHORISED UNIT TRUST & INSURANCES

American Life Insurance Co UK
2-8 Altyre Road, Croydon CR9 2LG 01-680 7181

Alpha Range—Life				
Managed Acc	99.3	102.5	-0.2	—
American Acc	99.6	104.8	-0.1	—
Deposit Acc	99.8	105.3	+0.1	—
European Acc	109.6	115.4	-0.4	—
Far Eastern Acc	113.1	119.1	-0.3	—
Fixed Interest Acc	84.3	88.8	+0.3	—
International Acc	108.2	113.9	-0.4	—
Property Acc	120.5	126.9	-0.3	—
UK Equity Acc	93.4	98.3	-2.1	—
Alpha Range—Pensions				
Managed Acc	97.6	102.8	-0.2	—
Premier Range				
Managed Acc—Life	107.6	113.3	-0.4	—
Managed Acc—Pensions	108.8	114.5	-0.8	—

Other unit prices available from American Life

Baltic Assurance Funds
20, Chiswell St, London, EC1Y 4TY 01-374 6801

Managed Growth	255.20	268.63	—	—
Managed Income	118.48	124.73	—	—

Barclays Life Assur. Co Ltd
252 Romford Road, London E7 01-534 5544

Barclaybond	356.1	374.9	—	—
Managed Accum	301.9	317.8	+0.2	—
Equity Accum	437.5	460.6	+0.2	—
Property Accum	207.2	218.3	—	—
International Accum	275.1	289.6	+1.2	—
Gilt-edged Accum	196.7	207.1	-0.5	—
Money Accum	176.6	185.9	—	—
American Accum	181.3	190.9	+1.7	—
Australia Accum	167.7	176.6	+1.9	—
Financial Accum	204.9	215.7	+0.2	—
"500" Accum	221.4	233.1	-0.2	—
European Growth Accum	145.3	153.0	+0.9	—
Income Accum	242.3	255.1	-0.5	—
Japan & Gen Accum	322.9	339.9	-1.0	—
Leisure Accum	148.3	156.2	-0.7	—
Spec Sits Fd Accum	122.7	129.2	-0.2	—
Universal Tec Accum	109.5	115.3	+0.6	—
Managed Pen Accum	405.5	426.9	+0.8	—
Equity Pen Accum	148.0	155.8	+0.2	—
Intnl Pen Accum	155.4	163.6	+1.1	—
Gilt-edged Pen Accum	281.2	296.1	-0.9	—
Money Pen Accum	257.4	271.0	—	—
Property Pen Accum	107.5	113.2	—	—

For prices of Initial Units phone 01-534 5544.

Black Horse Life Ass. Co Ltd
34-a High St, Chatham 0634 405161

Black Horse Man. Fd		365.86	—	—
Income Fd	334.67	352.29	—	—
Extra Income Fd	318.31	335.07	—	—

Cornhill Insurance PLC
57 Ladymead, Guildford 0483 68161

Equity Fd (A&B) Dec 10	258.5	272.5	—	—
Fixed Int (A&B) Dec 10	164.0	173.0	—	—
Man Growth (A&B) Dec 10	531.0	559.0	—	—
Money Fd (A&B) Dec 10	142.5	150.5	—	—
Cap Fd (A&B) Nov 15		410.0	—	—
G&S Spec Fd (A&B) Nov 15		169.0	—	—
Far East Eqty A&B Dec 10	187.5	197.5	—	—
N.Amer Eqty A&B Dec 10	106.0	112.0	—	—
Int Technol A&B Dec 10	155.5	164.0	—	—
Property (A&B) Dec 10	197.5	208.0	—	—

Credit & Commerce Life Ass. Ltd
74 Shepherds Bush Green, W12 8SD 01-740 7070

Life Funds				
UK Equity	142.9	150.7	-0.1	—
American Equity	124.6	131.4	—	—
Far East Equity	171.4	180.8	—	—
Managed Fund Acc	371.0	391.0	—	—
International Equity	186.5	196.7	—	—
Gilt Edged	183.2	193.2	—	—
Money Fund	144.9	152.8	—	—
CCL Henderson	161.8	170.6	—	—
CCL Perpetual	202.1	213.2	—	—
CCL Property	229.8	242.4	—	—
Smaller Cos.	254.6	268.5	—	—
Perpetual Eurogrowth	117.2	123.6	—	—
CCL Henderson Prem Res	97.6	102.9	—	—

Criterion Assurance Group
Swan Court, Petersfield, Hants. 0730 63282

Ultimate Mngd Fund	174.8	184.0	+1.8	—
Criterion Mngd Fund	167.4	176.2	+1.4	—
Pension Mngd Cap	53.0	55.7	+0.5	—
Pension Mngd Acc	62.5	65.7	+0.4	—
Pension G'nteed Dep Ac	34.8	36.6	+0.1	—

For closed fund unit prices ring 0730 63281

Crown Financial Management Ltd
Crown Hse, Woking GU21 1XW 04862 5033

Life Funds				
American Acc	100.5	105.8	—	—
Equity Acc	379.6	399.5	—	—
European Acc	183.7	193.4	—	—
Fixed Interest Acc	212.4	223.5	—	—
High Income Acc	362.2	381.1	—	—
Index Acc	345.6	363.8	—	—
Inv. Trust Acc	416.9	438.8	—	—
Japanese Acc	167.0	175.8	—	—
Managed Acc	314.6	331.1	—	—
Money Acc	179.7	189.1	—	—

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV $18.85 +0.03 —

World Wide Growth Management◊
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd $17.01 — —
Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Capital Mngt (Guernsey) Ltd
22 Smith St, St Peter Port, Guernsey. 0481 23765
Japan Mats Growth $10.03 −0.04 —

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech $17.49 — —
Dynamic Gwth Fd $19.72 — —

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268
Zero Bond Fund $12.25 12.4d — —

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Funds Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3			01-283 6461	
CAFCASH Call Fund	10.74	8.05	11.80	3-mth
CAFCASH 7-day Fund	10.69	7.96	11.75	3-mth
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ			01-588 1815	
Deposit	10.75	(11.19cal)		3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST.			01-236 0952	
Call Fund	10.72	8.01	11.09	6-mth
7-day Fnd	10.71	8.01	11.09	6-mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE.			01-236 1425	
Call Fnd	10.40	7.77	11.15	6-Mth
7-day Fund	10.39	7.77	11.15	6-Mth
Dollar	4.75	3.55	5.07	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF			031-225 8484	
Full Service Chq Acc	10.25	7.50	10.86	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY.			01-638 6070	
Treasury Acc	10.25	7.44	11.10	Qtr
MoneyChq £500-£5000	10.00	7.48	10.93	Mth
Mth. Int. Chq, £5,000+	10.25	7.44	11.18	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			01-283 9111	
High Int. Cheque Acc	11.00	8.23	12.03	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH.			01-628 8060	
Money Mkt Cheque Acc	10.25	7.44	11.18	Mth
High Int Chq Acc	10.625	7.94	11.53	Qtr
Provincial Trust				
30 Ashley Rd, Altrincham, Cheshire			061-928 9011	
High Int Chq Acc	11.00	8.23	12.03	Mth
Royal Bank of Scotland plc				
42 St Andrew Sq, Edinburgh EH2 2YE.			031-557 0201	
Premium Account	10.37	7.75	11.29	Qtr
Save & Prosper/Robert Fleming				
28 Western Rd, Romford RM1 3LB.			0708 66966	
H.I.B.A.	10.25	7.44	11.20	Daily
Tyndall & Co				
29-33 Princess Victoria St, Bristol			0272 732241	
Demand Acc	10.80	8.07	11.71	Qtr
Money Acc	10.53	7.87	11.42	Qtr
J. Henry Schroder Wagg & Co Ltd				
Enterprise House, Portsmouth			0705 827733	
Special Acc	10.00	7.48	10.90	Mth
Over £10,000	10.25	7.66	11.17	Mth
Western Trust & Savings Limited				
The Moneycentre, Plymouth PL 1SE			0752 224141	
High Int Chq Acc	11.06	8.27	12.03	Qtr
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1A 7AE.			01-606 9485	
High Int Cheque Acc	11.25	8.41	12.23	Qtr

NOTES—Gross: rate in those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ◊ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rates of NAV increase. ad ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk.	48
BAT	35	P & O Dfd	45
BOC Grp.	28	Plessey	14
BSR	11	Polly Peck	16
BTR	26	Racal Elect.	15
Babcock	16	RHM	24
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons.	24	Turner Newall	18
Comm Union	28	Unilever	140
Courtaulds	26	Vickers	36
FNFC.	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land.	16
Glaxo	85	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	BOM	$3\frac{1}{2}$
Hanson Tst.	18	Brit. Petroleum	58
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	$3\frac{1}{2}$
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	62
Morgan Grenfell	26		

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Opec faces failure on output cuts

BY RICHARD JOHNS IN GENEVA AND LUCY KELLAWAY IN LONDON

A MOOD of despondency enveloped the Organisation of Petroleum Exporting Countries' meeting yesterday as delegates faced the near certainty of no plausible binding accord on output cuts.

Mr Rilwanu Lukman, the Nigerian Minister of Oil who is current president of Opec, and Dr Subroto the Indonesian chief delegate, were trying to limit the potential damage to oil prices from failure by seeking agreement to extend the present temporary production sharing pact until the end of January.

As it became clearer yesterday that the fast agreement hoped for on production cuts was not going to happen, the strong rally in the oil market over the last week was squashed. The price of crude in both London and New York slipped back below $16, with West Texas Intermediate trading in the early afternoon in the US at about $15.85, down 25 cents, and Brent in London at about $15.60.

he proposal for a new Opec production cut of 7.2 per cent has been blocked by Iran's insistence that Iraq must be part of the agreement and Iraq's equally intransigent demand for parity with Iran.

Yesterday afternoon Mr Qassim Taki, Iraq's Minister of Oil, said there was "a possibility" of an extension of the accord which, while Iraq's ability to export remains limited, effectively confines collective output (if quotas of other members are observed) to a little over 17m barrels a day.

That rate compares with a figure of no more than 16m b/d which most Opec leaders believe is the ceiling required if surplus stocks are to be quickly soaked up and prices raised to about $18 per barrel. This is the price demanded by King Fahd of Saudi Arabia, and accepted as the right target by all members.

Agreement on an extension of the pact depended on Iran, Mr Taki added. Dr Gholamreza Agazadeh, Iran's chief delegate, was not immediately avaialbe for comment. But Iran is understood to be adamant that Iraq should be tied down to a quota related to the 1.2m b/d accorded to it under the Ocober 1984 deal which set a ceiling of 16m b/d for Opec as a whole.

Opec may have no choice but to conclude a pact of a lower output limited to the other 11 members excluding Iran and Iraq. It would hardly be one to sustain market confidence, however.

Iraq's relations with Saudi Arabia have undoubtedly been strained by King Fahd's attempt to persuade President Saddam Hussein to accept a quota. Saudi Arabia is understood to have informed Iraq that not until April can it allow the flow of its oil through Petroline, the pipeline system across the Arabian peninsula, to Yanbu on the Red Sea, because of technical complications relating to work on increasing capacity of the facility.

Other observers as well as Baghdad, evidently regard the explanation as a rather devious excuse for restraining Iraqi exports. It was promised a throughput of 500,000 b/d but since the beginning of November it has been limited to about 120,000 b/d.

The Iran-Iraq dispute apart, the whole issue of production sharing has been complicated by the demands of Ecuador, Gabon and Qatar — all minor Opec players — for exemption from any production cuts. In addition the United Arab Emirates has said nothing to give any other members confidence that it will stop "cheating" by exceeding its agreed entitlement.

Saudi Arabia has made it clear that it will not return to its traditional role of "swing producer" abandoned in 1985.

Yesterday the situation at this Opec meeting was described by one senior delegate as one of "creeping paralysis." He believed there was little hope of salvaging any market confidence.

The delegate regretted the absence of Sheik Ahmed Zaki Yamani, the former Saudi Minister of Oil, sacked nearly two months ago from the conference. "There's no pillar to shore up this meeting — there is no Yamani here this time," he lamented.

Saudi Arabia is understood to have informed customers that they must reduce "nominations" for its crude oil — in effect orders — by 10 per cent next month. That was seen here as an attempt to underline the good intentions and willingness of Saudi Arabia to bring down its output by at least 7.2 per cent if other members did so on a pro rata basis.

For a brief period in the morning the Brent market lit up on the news, with cargos for delivery in February, changing hands for as much as $1.15. However, prices later retreated in a general mood of pessimism.

Promise of more CAP reform

BY TIM DICKSON IN BRUSSELS

Mr Frans Andriessen, the EEC's Farm Commissioner promised yesterday that more reforms of the Common Agricultural Policy will soon be on the way.

As the euphoria over Tuesday's watershed agreement to cut Community milk production and guaranteed prices of beef continued in Brussels yesterday, Mr Andriessen paid tribute to farm ministers' efforts to "put their house in order" and keep the EEC's farm policy "on the rails."

But he also warned, that in the price proposals for the 1987-88 marketing season (to be announced almost certainly next month), the Commission will be pursuing the same strategy of price restraint it followed in this year's package.

The two main priority areas would be cerials—"we will have to deal with this after evaluation of what we did this year with the co-responsibility tax and quality standards"—and the oils and fats sector, notably the future of the expensive olive oil regime. Possibly radical changes to the whole system of Monetary Compensatory Amounts (MCAs) are also likely to be put forward.

● French farmers reacted angrily to the EEC decisions but Mr Jacques Chirac, the Prime Minister, is expected to announce some compensating measures today, David Housego writes from Paris.

Mr Raymond Lacombe, President of the FNSEA, the main farmers' organisation, said the decisions would have "grave consequences" for French agriculture and farmers. He said that the moves were the result of a short-sighted approach that failed to take into account the long-term problems of financing European agriculture.

The measures come after a year in which farmers' incomes stagnated. In 1984 they declined by 2 per cent.

The present Minister of Agriculture, Mr Francois Guillaume, is the former head of the FNSEA.

● West Germany's farming lobby greeted the Brussels agricultural package with some scepticism yesterday. Constantin Freiherr Heerman, president of the German Farmers' Association, said the cuts agreed in milk production were a step in the right direction but he criticised the reduction in the skimmed milkpowder intervention scheme and at the new beef premium.

The opposition Social Democrats, with an eye on next month's general election, accused the ministers of trying to "reform the Community agricultural market on the backs of German farmers," and said the results were a catastrophe for German farmers.

The Government, though, is believed to be more than pleased at the concessions Mr Ignaz Kiechle, the Agriculture Minister, was able to win. The farmers' reaction will be judged by ministers as relatively docile. A great comfort for Chancellor Helmut Kohl yesterday will have been the silence on the subject from Mr Franz Josef Strauss, the Bavarian leader, who regards himself as the protector of Germany's dairy farmers, mosth of whom live in Bavaria.

A big bite out of the UK dairy industry

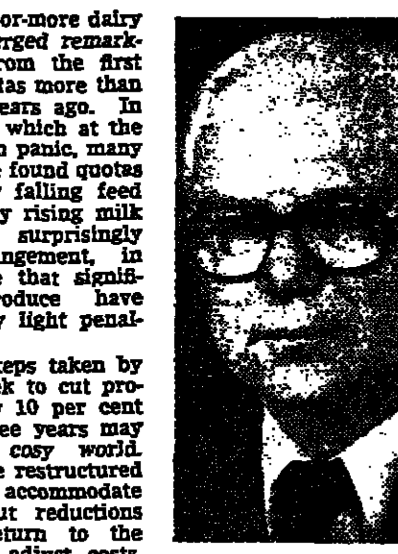
BY ANDREW GOWERS

BRITAIN'S 48,000-or-more dairy farmers have emerged remarkably unscathed from the first shock of milk quotas more than two and a half years ago. In spite of reactions which at the outset bordered on panic, many of them have since found quotas —accompanied by falling feed costs and modestly rising milk prices—to be a surprisingly comfortable arrangement, in which even those that significantly over-produce have escaped with very light penalties.

However, the steps taken by the EEC this week to cut production by nearly 10 per cent over the next three years may shake up that cosy world. Farmers who have restructured their businesses to accommodate the earlier output reductions will have to return to the drawing-board to adjust costs. More seriously, some of those producers who are still in financial difficulty as a result of the halt which quotas called to their expansion plans could well be pushed over the edge into bankruptcy.

Particularly badly affected will be large areas of Wales and the south-west of England, which depend heavily on milk for their livelihood, as well as marginal dairying operations in the east of the country.

The effects on the milk processing industry will be equally serious, with more creameries forced to close, particularly those manufacturing butter, the bulk product through which the dairy market is supported under EEC arrangements, and



Sir Stephen Roberts: gloomy assessment

which traditionally yields a relatively poor return.

Farmers' criticisms of the EEC deal have been muted by the fact that it is by no means as bad as they originally expected when the European Commission started agitating for dairy cuts. For example, the compensation to be paid to dairy farmers for voluntarily giving up milk production has been increased, and the farm lobby has to some extent been appeased by the effort to get rid of butter stocks.

Nevertheless, Sir Stephen Roberts, chairman of the Milk Marketing Board of England and Wales, who has been sounding the alarm with increasing vigour in recent weeks, issued the following gloomy assessment of the package yesterday:

"There will be serious consequences for our rural economy, particularly in the west. Many creameries will have to close. The repercussions will spread to the whole agricutural supply/service industry and thousands of jobs will be lost.

"On our most cautious interpretation, the measures to be imposed will cause farmers to be forced out of business. Thousands of dairy cows will have to be slaughtered, causing chaos in the beef market and adding to the present unwanted stocks of beef."

The National Farmers' Union was yesterday attempting to work out the possible income effects of the measures — an effort complicated by the tangle of different compensation payments which they allow for. There was some hope, however, that the increases in compensation eventually agreed should held to minimise the damage done by compulsory output cuts.

But the cuts are expected to exact a heavy toll on farmers which were already overstretched after quotas were first brought in—usually as a result of aborted expansion plans involving heavy borrowing for the purchase of land, buildings or equipment.

As to the dairy processing sector, that has already been through one succession of traumas in the last two years, but a new set is now about to start. Dairy Crest Foods, the Milk Marketing Board's manufacturing subsidiary, which is by far the biggest manufacturer of butter and Cheddar cheese in Britain, has already announced the closure of seven creameries and mothballed large amounts of plant at others, with the loss of more than 1,000 jobs. This resulted partly from the drop in milk production, which had a disproportionate effect on butter plants because the liquid milk market is always given priority in Britain, but also from streamlining to meet increasing competition by dairy imports from the Continent.

Dairy Crest had hoped its most recent announcement of closures at the end of October would be the last. But executives said at the time that a further cut in quotas would mean a fundamental rethink —an exercise in which Dairy Crest directors appeared to be embroiled yesterday. Also affected, according to City analysts, will be Express Dairy, a subsidiary of Grand Metropolitan. Of all the commercial dairy companies, Express is most exposed to the bulk, low-return products.

Dairy Crest and the commercially-owned dairies may wich to co-operate over closures to smooth their effects. In a sense, though, they are simply having to bow to a development which has looked increasingly inevitable as consumer preferences have shifted away from butter and towards dairy products like yoghurt and low-fat milks in the few years.

'Secretive' charge over tin crisis

BY STEFAN WAGSTYL

THE GOVERNMENT was yesterday accused by MPs of being excessively secretive in its handling of events leading up to the tin market crisis.

The Select Committee on Trade and Industry, which earlier this year published a highly-critical report on the Government's role in the affair, followed up its attack with a supplementary report.

The all-party committee concluded that the Government and the Bank of England should have done more to warn the London Metal Exchange, banks and the Cornish tin mines about the International Tin Council's financial position before the council defaulted with debts of £900m in October 1985.

Given vague warnings from the Bank, LME traders should have alerted themselves to the danger. But the Bank should have told them that, as a confidential adviser to the Government, it was inhibited in the information it could give, says the report.

The Bank should have warned banks lending to the tin council and the Department of Trade and Industry should have alerted the tin producers.

"The Government should not have been so secretive about its own intentions. Enormous investment, the reputation of a major City institution and of the Bank of England, and the jobs of thousands of Cornish people were at stake," says the report.

Mr Kenneth Warren, the committee chairman, said: "I personally think the Government is obsessed with secrecy to the detriment of good government."

The report adds that the Government, one of 22 members of the ITC which ran a tin price support pact, should never have joined the Sixth International Tin Agreement, signed in 1982. "We believe that it was wrong to allow doubtful considerations of international relations to outweigh common sense when the decision was taken to join the Sixth ITA."

Mr Warren said: "I think it is not unfair of us to say that those involved should have been smarter."

The Tin Crisis: Supplementary Report, HMSO; £5.50.

New Year judgement expected for ITC

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE HEARING of the move by the International Tin Council to rid itself of a winding-up petition brought by a London Metal Exchange trader ended in the High Court yesterday.

Mr Justice Millett is expected to give judgment on the ITC's application to strike out the petition in mid-January, when the courts return after the Christmas law vacation.

The petition is by Amalgamated Metal Trading, a subsidiary of Preussag, the West German metals group, and a creditor of the ITC for £5.3m.

The ITC, supported by the Government, contends that, as an international body created by treaty, it is immune from winding-up or any other English legal process.

AMT, supported by Kleinwort Benson, the merchant bank which claims to be owed more than £7m by the ITC, argues that the English court has jurisdiction to wind-up the ITC because, at one level, it existed under English law.

The expectation is that, whatever Mr Justice Millett rules, the case will go to the Court of Appeal and eventually to the House of Lords.

LONDON MARKETS

THE ROBUSTA coffee futures market fell to fresh 4½ months lows yesterday amid bearish fundamentals and the breaching of key levels on the price charts. The March position closed at £1,752.50 per tonne, down £35 on the day, and at the lowest level since early August. The impetus for the latest fall came from New York, but it reflects a continuation of downward pressure, following last week's International Coffee Organisation meeting which decided not to discuss the reintroduction of export quotas. The market has also been drifting lower ahead of the announcement of 1987 contract terms by Brazil. On the London Metal Exchange, copper prices were firm in thin trading, following the rejection by striking workers at Noranda's Horne smelter in Quebec of a management offer on a new three-year labour contract. Cash grade A metal closed at £934 per tonne, up £8.50 on the day. Cash lead rose £2 to £375.50, continuing its recent rally.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	788.5-9.5	—1.5	790.5-790
3 months	802.5-3	—1	[illegible]

Official closing (am): Cash 790-0.5 (790-1), three months 803-4 (804-4.5), settlement 790.5 (791). Final Kerb close: 802.5-803. Turnover: 8,050 tonnes.

COPPER

LEAD

NICKEL

TIN

ZINC

GOLD

SILVER

SOYABEAN MEAL

INDICES

REUTERS

DOW JONES

MAIN PRICE CHANGES

COCOA

COFFEE

POTATOES

GRAINS

RUBBER

US MARKETS

GOLD and platinum closed lower while silver was mixed as lower crude oil prices sapped trader optimism about an Opec accord and pressured the metals reports Heinold. Activity was quiet with the exception of a small flurry of local selling when the oil market opened lower. The precious metals were receiving very light support from a weaker US dollar while economic data released, including the Gross National Product, was interpreted as neutral. Platinum's larger decrease was more of a factor of the thin market, in which moves tend to be exaggerated, than of any fundamental changes. Coffee futures settled lower but off the day's lows in mostly local activity. The selling was based on news from Brazil that the IBC may use dollars instead of Arabicas to reimburse the 20 companies that bought 600,000 bags of African robustas for the IBC in August and September to hedge against drought induced Brazilian shortfalls. The coffee was then warehoused in Europe, where it has been a recurring source of contraversy.

NEW YORK

CHICAGO

OIL

FREIGHT FUTURES

GAS OIL FUTURES

HEAVY FUEL OIL

MEAT

SUGAR

Soviet tea supplies low

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and pound lose ground

A SLIGHT weakening of the dollar in quiet foreign exchange trading was little more than the result of technical considerations yesterday. Commercial demand at the year-end is supporting the US currency, but underlying sentiment suggests a further decline in the New Year. A downward revision in US third quarter gross national product growth to 2.8 per cent from 2.9 per cent had no impact, and the market also showed no reaction to news that President Reagan is to go into hospital for surgery next month.

Dull and featureless trading is expected to continue through the Christmas holiday and up to the New Year.

The dollar fell to DM 2.0160 from DM 2.0185; to FFr 6.60 from FFr 6.61; to SFr 1.7010 from SFr 1.7050; and to Y163.60 from Y163.85.

On Bank of England figures the dollar's index fell to 111.1 from 111.3.

STERLING—Trading range against the dollar in 1986 is 1.5555 to 1.3700. November average 1.4330. Exchange rate index fell 0.2 to 68.4, compared with 76.5 six months ago.

Tuesday's good news on the November UK public sector borrowing requirement was not enough to prevent sterling weakening in early foreign exchange trading yesterday. The pound fell as the expected oil production agreement between ministers from the Organisation of Petroleum Exporting Countries, meeting in Geneva, was thrown into doubt by a row between Iran and Iraq, the two countries involved in the Gulf War. North Sea oil prices were steady, but renewed scepticism that Opec would soon manage to push the oil price up to $18 a barrel, produced nervous selling of sterling. The pound soon stabilised however and closed unchanged at $1.4300, while falling to DM 2.8825 from DM 2.8875, to FFr 9.44 from FFr 9.4525; to SFr 2.4325 from SFr 2.4378; and to Y234.00 from Y234.25.

D-MARK—Trading range against the dollar in 1986 is 2.4710 to 1.9060. November average 2.0227. Exchange rate index 142.8 against 135.6 six months ago.

The D-mark was a little firmer against the dollar in quiet Frankfurt trading. Revised US GNP growth of 2.8 per cent in the third quarter had no impact, with most banks already holding square positions ahead of the year-end. The dollar eased to DM 2.0130 from DM 2.0190 at the Frankfurt close, after being fixed at DM 2.0167 compared with DM 2.0232 on Tuesday. The Bundesbank did not intervene at the fixing. Dealers commented that the dollar is likely to weaken in the New Year, but at present appear to see a low of only DM 1.95, in spite of recent forecasts that the US currency could touch DM 1.80.

JAPANESE YEN—Trading range against the dollar in 1986 is 202.70 to 152.35. November average 162.77. Exchange rate index 204.3 against 206.1 six months ago.

The yen was little changed in quiet trading against the dollar. The US currency touched a peak of Y164.15 in Tokyo, but was then sold by exporters and investment companies to hedge against currency risks. Selling by foreign banks pushed the US currency down to a low of Y163.70 on Tuesday. There were signs that traders holding long dollar positions were also beginning to sell the US currency as new investment funds, set up by Japanese investment trust companies earlier this month, show no indication of making large dollar purchases. Up to $2bn is believed to be available, but dealers suggested the new funds may delay buying dollars for investment in foreign bonds until the New Year.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu December 17	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.3500	+0.55	+1.12	±1.5368
Danish Krone	7.81701	7.87604	+0.76	+1.33	±1.6403
German D-Mark	2.11083	2.08382	−1.28	−0.71	±1.1127
French Franc	6.87316	6.82380	−0.72	−0.15	±1.3659
Dutch Guilder	2.37833	2.35522	−0.97	−0.40	±1.5059
Irish Punt	0.764976	0.765279	+0.04	+0.61	±1.6683
Italian Lira	1476.95	1444.31	−2.21	−1.94	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec. 17	Latest	Previous Close
£ Spot	1.4305-1.4315	1.4300-1.4310
1 month	0.56-0.55 pm	0.60-0.57 pm
3 months	1.59-1.54 pm	1.66-1.63 pm
12 months	6.35-6.25 pm	6.42-6.32 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

POUND SPOT—FORWARD AGAINST THE POUND

Dec. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4260-1.4310	1.4295-1.4305	0.53-0.50c pm	4.32	1.65-1.60c pm	4.55
Canada	1.9670-1.9730	1.9715-1.9725	0.46-0.37c pm	2.53	1.52-1.17 pm	2.53
Netherlands	3.24¾-3.26¼	3.25¾-3.26¾	1½-1¼c pm	5.07	4¼-3¾ pm	4.83
Belgium	59.77-60.06	59.95-60.05	25-15c pm	4.00	55-45 pm	3.33
Denmark	10.86½-10.91	10.89½-10.90½	1¼-3ore pm	1.51	3¾-3¼ pm	1.28
Ireland	1.0545-1.0605	1.0580-1.0590	0.18-0.28p dis	−2.61	0.40-0.70 dis	−2.08
W. Germany	2.87¼-2.88¾	2.87¾-2.88¾	1½-1¼ pf pm	6.24	4½-4¼ pm	5.98
Portugal	213.25-214.50	213.60-214.40	99-132 c dis	−6.48	224-331 dis	−5.19
Spain	193.75-194.90	194.35-194.60	15-32 c dis	−1.45	30-85 dis	−1.18
Italy	1990¼-2002¼	1996½-1997½	2pm-1 lire dis	0.30	2 pm-1 dis	0.10
Norway	10.78-10.86¼	10.84½-10.85½	4-4¾ ore dis	−4.91	15½-14¾ dis	−5.30
France	9.41-9.44¼	9.43¼-9.44¼	2¼-1¾ c pm	2.62	5¼-4¾ pm	2.17
Sweden	9.91¼-9.96	9.94½-9.95½	1½-1¼ore pm	1.96	3¾-3¼ pm	1.38
Japan	233¼-234½	233½-234½	1½-1¼ y pm	7.05	4-3¾ pm	6.52
Austria	20.21-20.32	20.28-20.31	9¾-8¼ gro pm	5.28	28¼-24¾ pm	5.69
Switzerland	2.42¾-2.43¾	2.42¾-2.43¾	1¾-1½ c pm	6.17	4½-3¾ pm	6.58

Belgian rate is for convertible francs. Financial franc 60.45-60.55. Six-month forward dollar 3.38-3.33 c pm. 12-month 6.50-6.30 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Dec. 17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4260-1.4310	1.4295-1.4305	0.53-0.50c pm	4.32	1.65-1.60 pm	4.55
Ireland†	1.3492-1.3520	1.3505-1.3515	0.85-0.76c pm	7.15	2.44-2.26 pm	6.96
Canada	1.3779-1.3795	1.3780-1.3790	0.19-0.22c dis	−1.78	0.68-0.73 dis	−2.05
Netherlands	2.2750-2.2805	2.2775-2.2785	0.12-0.09c pm	0.55	0.19-0.15 pm	0.30
Belgium	41.90-42.00	41.90-42.00	1-3c dis	−0.57	10-14 dis	−1.14
Denmark	7.61¼-7.63¾	7.62-7.62½	1.40-2.10ore dis	−2.76	5.65-6.35 dis	−3.15
W. Germany	2.0115-2.0195	2.0155-2.0165	0.32-0.29pf pm	1.82	0.75-0.70 pm	1.44
Portugal	149¾-150¼	149¾-150	115-135c dis	−10.02	350-400 dis	−9.75
Spain	136.55-136.34	135.95-136.05	62-72c dis	−5.91	185-215 dis	−5.88
Italy	1395-1399	1396¼-1396¾	4½-5½lire dis	−4.29	15-16½ dis	−4.51
Norway	7.56-7.59½	7.58½-7.59	6.20-6.80ore dis	−10.30	18.90-19.50dis	−10.14
France	6.59-6.61	6.59¾-6.60¼	0.90-1.10c dis	−1.82	4.40-4.80 dis	−2.79
Sweden	6.94¾-6.97	6.95½-6.96	1.40-1.70 ore dis	−2.67	5.40-6.80 dis	−3.22
Japan	163.45-163.85	163.55-163.65	0.37-0.33y pm	2.57	0.84-0.79 pm	1.99
Austria	14.16¼-14.20¼	14.18¼-14.18¾	1.50-0.80gro pm	0.97	3.25-1.25 pm	0.64
Switzerland	1.6960-1.7070	1.7005-1.7015	0.38-0.27c pm	2.08	0.87-0.82 pm	1.99

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 42.25-42.35.

CURRENCY RATES

EURO-CURRENCY INTEREST RATES

Dec. 17	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10⅝-10⅞	10⅞-10⅞	11⅛-11¼	11¼-11⅜	11¼-11⅜	11¼-11⅜
U.S. Dollar	7¼-7½	6⅛-6⅜	6⅞-7	6¼-6½	6⅛-6⅜	6⅛-6⅜
Can. Dollar	8¼-8⅜	8¼-8⅜	8¼-8⅜	8⅜-8½	8½-8⅝	8½-8¾
D. Guilder	6¼-6½	6¼-6⅜	6¼-6⅜	6-6¼	5⅞-5⅞	5¾-5⅞
Sw. Franc	2⅞-2⅞	1⅞-1⅞	5-5¼	4⅛-4⅜	4⅛-4⅜	4⅛-4⅜
Deutschmark	4⅞-5	4⅞-4⅞	5⅛-5⅛	4⅞-5	4⅞-4⅞	4⅞-4⅞
Fr. Franc	7½-7¾	7⅞-8⅛	8¼-8½	8⅞-9	8⅜-8⅞	8½-8¾
Italian Lira	10-11	10⅜-11⅜	10⅝-11⅛	10⅞-11⅛	10⅝-11	10⅝-11

CURRENCY MOVEMENTS

OTHER CURRENCIES

Luxembourg	59.95-60.05	41.90-42.00
Malaysia	3.7120-3.7165	2.5970-2.5990
N Zealand	2.7620-2.7695	1.9315-1.9355
Saudi Ar.	5.3660-5.3715	3.7525-3.7535
Singapore	3.1325-3.1365	2.1920-2.1940
S. Af. (Cm)	3.1910-3.2150	2.2370-2.2420
S. Af. (Fn)	6.0855-6.3556	4.2555-4.4445
Taiwan	51.30-51.60	35.90-36.00
U.A.E.	5.2515-5.2570	3.6725-3.6735

* Selling rate.

EXCHANGE CROSS RATES

F Fr.	1.060	1.515	3.054	247.9	10.	2.577	3.452	2116.	2.090	65.58
S Fr.	0.411	0.588	1.185	96.20	3.880	1.	1.339	821.0	0.811	24.67
H Fl.	0.307	0.439	0.885	71.83	2.897	0.747	1.	613.0	0.605	18.42
Lira	0.501	0.716	1.443	117.2	4.726	1.218	1.631	1000.	0.987	30.05
C $	0.507	0.725	1.462	118.7	4.786	1.234	1.652	1013.	1.	30.43
B Fr.	1.667	2.383	4.804	390.0	15.73	4.054	5.429	3328.	3.287	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES

US bonds slightly firmer

US TREASURY bond prices were slightly firmer in the London International Financial Futures Exchange yesterday. A delayed decision by Opec on what most people saw as the best chance yet of a cut in production and a rise in oil prices, gave bonds a brief fillip since higher oil prices were seen as a significant influence on the inflation rate. However it was difficult to make any clear assessment because of the proximity of Christmas and the New Year.

Many dealers were convinced that although the implications of recent economic statistics had been taken on board they were unlikely to be manifested through market values until the start of the New Year. Yesterday's revised third quarter US GNP figure was a good example although the adjustment to a rise of 2.8 per cent from 2.9 per cent previously was in line with expectations and would probably not have caused much of a stir anyway.

The March price opened at 99-02 and traded in a narrow range between 99-05 and 98-28 before closing at 99-00 compared with 98-28 on Tuesday.

Long gilt prices for March delivery opened at 109-02 and eased quite quickly to 108-30 at which level it attracted support. With sterling's partial recovery later in the day values were pushed firmer, breaking through resistance at 109-14 to touch a high of 109-20. It closed at 109-18, little changed from 109-16 on Tuesday.

Three-month sterling deposits were weaker, closing at 88.78 for March delivery from an opening level of 88.81 and a previous close of 88.86. Cash rates were slightly firmer towards the close as sterling failed to hold on to its recovery from opening lows.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
100	9.38	9.61	0.02	0.17
102	7.43	8.12	0.07	0.32
104	5.54	6.55	0.18	0.55
106	4.12	5.06	0.40	1.25
108	2.51	3.52	1.15	2.08
110	1.46	2.49	2.10	3.05
112	0.62	1.60	3.26	4.16
114	0.32	1.19	4.60	5.39

Estimated volume total, Calls 783 Puts 709

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
90	9.04	8.40	0.04	0.34
92	7.12	7.00	0.12	0.58
94	5.28	5.33	0.28	1.27
96	3.57	4.15	0.57	2.09
98	2.39	3.10	1.39	3.04
100	1.40	2.18	2.40	4.12
102	0.60	1.38	3.60	5.32
104	0.32	1.05	5.32	6.63

Estimated volume total, Calls 26 Puts 30

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Jan.	Puts—Last Dec.	Puts—Last Jan.
15500	8.50	—	0.00	—
15750	6.00	9.21	0.00	0.26
16000	3.55	7.02	0.05	0.57
16250	1.47	5.08	0.47	1.13
16500	0.33	3.46	1.83	2.01
16750	0.03	2.20	4.03	3.25
17000	0.00	1.30	6.50	4.85
17250	0.00	0.71	9.00	6.76

Estimated volume total, Calls 0, Puts 2

SWISS FRANC (IMM)
SFr125,000 $ per SFr

	Latest	High	Low	Prev.
Mar.	0.5918	0.5920	0.5896	0.5884
June	0.5949	0.5949	0.5931	0.5914
Sep.	0.5970	0.5970	—	0.5948
Dec.	—	—	—	0.5917

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Dec.	249.10	249.65	248.75	249.25
March	249.95	250.60	249.55	250.15
June	250.60	251.30	250.35	250.95

EUROPEAN OPTIONS EXCHANGE

Series		Vol.	Last	Vol.	Last	Vol.	Last	Stock
HOOGOVENS P	Fl.45	83	2.50	174	4.80	4	5.80	
KLM C	Fl.45	350	0.40	182	2.20	8	3.40A	Fl.41.70
KLM P	Fl.50	624	8.50	52	8.20	99	8.60	"
NAT. NED. C	Fl.85	35	1.10	83	3.30	—	—	Fl.83.40
NAT. NED. P	Fl.85	64	2.60	12	4.10	5	5.60	"
PHILIPS C	Fl.50	334	0.20	223	1.20	80	1.80	Fl.43.60
PHILIPS P	Fl.40	312	0.50	91	1.60	18	2.30	"
ROYAL DUTCH C	Fl.220	708	0.90	375	4	63	5.40	Fl.210.40
ROYAL DUTCH P	Fl.210	190	3	372	5.90	36	9.50	"
ROBECO C	Fl.95	5	1.50	4	3.20	—	—	Fl.95.90
UNILEVER C	Fl.520	261	7.30	119	24.50	1	30	Fl.518
UNILEVER P	Fl.500	196	2.40	135	11B	—	—	"

TOTAL VOLUME IN CONTRACTS: 24,450

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	*12.45	Mount Credit Corp. Ltd.	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	11
American Exp. Bk.	11	Consolidated Cred.	11	Northern Bank Ltd.	11
Amro Bank	11	Co-operative Bank	*11	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd.	12
Associates Cap Corp.	11	E. T. Trust	12	R. Raphael & Sons	11
Banco de Bilbao	11	Equatorial Tst C'p plc	11	Roxburghe G'rantee	11½
Bank Hapoalim	11	Exeter Trust Ltd.	11½	Royal Bk of Scotland	11
Bank Leumi (UK)	11	Financial & Gen. Sec.	11	Royal Trust Bank	11
Bank Credit & Comm.	11	First Nat. Fin. Corp.	11½	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd.	11½	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶12.25
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd.	11	● Guinness Mahon	11	Westpac B'nking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambro Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	12	Heritable & Gen. Tst.	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'	11		
Cl. Bank Nederland	11	Knowsley & Co. Ltd	11½		
Canada Permanent	11	Lloyds Bank	11		
Cayzer Ltd	11	Mase Westpac Ltd.	11		
Cedar Holdings	12	Meghraj & Sons Ltd.	11		
● Charterhouse Bank	11	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.

MONEY MARKETS

UK interest rates rise in thin trade

INTEREST RATES rose slightly towards the end of the day in London, partly because of sterling's weaker trend. This was due to uncertainty about the outcome of the current meeting of Opec ministers. However, trading at this time of year is traditionally thin and it was probably unwise to draw any long term conclusions from movements in a market sadly lacking in volume. Three-month interbank money was quoted at 11⅝-11¼ per cent up from 11⅛-11⅛ per cent. Overnight funds opened at 11-11¼ per cent and traded between 12 per cent and 10 per cent.

UK clearing bank base lending rate 11 per cent since October 15

The bank of England forecast a shortage of around £400m with factors affecting the market including maturing assistance and a take up of Treasury bills together draining £442m and a rise in the note circulation of £300m. These were partly offset by Exchequer transactions which added £420m and banks' balances brought forward £30m above target. The Bank gave assistance in the morning of £265m through outright purchases of eligible bank bills, £14m in band 1 at 10⅞ per cent, £3m in band 2 at 10⅞ per cent, £39m in band 3 at 10¾ per cent and £209m in band 4 at 10⅞ per cent.

The forecast was later revised to a shortage of around £450m before taking into account the morning help and the Bank gave additional assistance in the afternoon of £48m through outright purchases of eligible bank bills in band 3 at 10¾ per cent. Late help came to £50m, making a total of £463m.

A severe seasonal shortage of short term liquidity prompted the West German Bundesbank to take special measures to inject liquidity. The Bundesbank put money into the system via Government owned banks to meet a heavy call on funds due to corporate tax payments. In addition the market also received DM 4.9bn of funds through the Bundesbank's latest sale and repurchase facility although the net injection was only DM 1.4bn due to an expiring facility of DM 3.5bn.

While banks were reasonably well placed to meet end of month minimum reserve requirements with the Bundesbank, a further drain on liquidity was expected due to an increase in the note circulation ahead of Christmas and technical factors ahead of the year end.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec. 17) 3 months U.S. dollars: bid 6⅜ — Offer 6½

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	7½
Broker loan rate	7¼-7½
Fed. funds	5⅝
Fed. funds at intervention	7¼

Dec. 17	Overnight	One Month	Two Months
Frankfurt	4.60-4.70	4.80-5.00	4.75-4.90
Paris	7⅛-7⅜	7¼-7⅞	7¼-7⅞
Zurich	⅞-1⅛	4⅞-4⅞	—
Amsterdam	6⅜-6⅜	6⅜-6⅜	—
Tokyo	4.21875	4.46875	—
Milan	11¼-11⅝	11¼-12⅛	—
Brussels	7.45	7⅛-7⅜	—
Dublin	13-13¼	13⅛-13⅞	13⅛-13⅞

LONDON MONEY RATES

Dec. 17	Overnight	7 days notice
Interbank	12-10	11⅛-10⅞
Sterling CDs	—	—
Local Authority Deposits	10⅞-10¼	11-10⅞
Local Authority Bonds	—	—
Discount Market Deposits	11½-10	10¼
Company Deposits	11¼-11	11¼-11
Finance House Deposits	—	—
Treasury Bills (Buy)	—	—
Bank Bills (Buy)	—	—
Fine Trade Bills (Buy)	—	—
Dollar CDs	—	—
SDR Linked Deposits	—	—
ECU Linked Deposits	—	—

Treasury Bills (sell); one-month 10⅞ per cent; three-months ... one-month 10⅞ per cent; three months 10⅞ per cent; Treasury Bills: Average tender rate of discount 10.6592 p.c. ECGD Fixed Finance Scheme IV reference rate ... 11.248 per cent. Local Authority and Finance Houses seven days' notice ... Finance Houses Base Rate 11½ per cent from December 1, ... seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit ... and over held under one month 10¼ per cent; one-three months ... per cent; six-nine months 11¼ per cent, nine-12 months 11 ... cent from December 16. Deposits held under Series 5 10¼ per cent ... per cent.

Company Notices

RIGGS NATIONAL CORPORATION US$60,000,000 FLOATING RATE SUBORDINATED NOTES 1996

IN ACCORDANCE with the provisions of the notes, notice is hereby given that for the period December 18th 1986 to March 18th 1987 the notes will carry a rate of interest of 6⁹⁄₁₆% per annum with a coupon amount of US$165.62.

CHEMICAL BANK as Agent

RIGGS NATIONAL CORPORATION US$100,000,000 FLOATING RATE SUBORDINATED CAPITAL NOTES 1996

IN ACCORDANCE with the provisions of the notes, notice is hereby given that for the period December 18th 1986 to March 18th 1987 the notes will carry a rate of interest of 6½% per annum with a coupon amount of US$164.06.

CHEMICAL BANK as Agent

NEWMONT INTERNATIONAL FINANCE B.V.

ISSUE OF UP TO US$150,000,000 GUARANTEED FLOATING RATE NOTES DUE 1993

NOTICE IS HEREBY GIVEN that for the initial interest period commencing on December 19, 1986 the US dollar notes will bear interest at the rate of 6⅝% per annum. The interest payable on June 19, 1987 against Coupon No. 1 will be US$33.177083 per US$1,000 nominal.

Fiscal Agent
ORION ROYAL BANK LTD.

DIMOSIA EPIHIRISIS ELEKTRISMOU
(Public Power Corporation)

US $100,000,000 Floating Rate Notes due 1997

Notice is hereby given that for the interest period commencing on December 19 1986 the US dollar notes will bear interest at the rate of 8¹⁄₁₆% per annum. The interest payable on March 19, 1987 against Coupon No. 6 will be US$20.3125 per US$1,000 nominal.

Fiscal Agent
ORION ROYAL BANK LTD.

Clubs

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St., W1. 01-734 0557

Legal Notices

THE CIRCUIT COURT
DUBLIN CIRCUIT
COUNTY OF CITY OF DUBLIN

Between
JOHN BENTLEY DESIGNS LIMITED
PLAINTIFF

and
WILLIAM SHANAHAN
t/a WILLIAM ELLIOTT
DEFENDENT

TO THE DEFENDENT
WILLIAM SHANAHAN

TAKE NOTICE that a Civil Bill was issued against you on the 19th day of March, 1986, claiming the sum of IR£7,333.01 balance due to the Plaintiff by you for goods sold and delivered AND that an application was made to the Circuit Court and an Order obtained on the 21st day of March, 1986, granting liberty to serve you with the said Civil Bill by means of this advertisement.

AND FURTHER TAKE NOTICE that if you wish to dispute the Plaintiff's Claim, you should enter an Appearance at the Circuit Court Office, Ormond House, Upper Ormond Quay, Dublin 7, within ten days of the publication of this notice.

PAUL F. DIAMOND & CO.,
Solicitors for Plaintiff,
Chancery Place,
DUBLIN 7.

Art Galleries

LEFEVRE GALLERY, 30 Bruton St. W1. 01-439 2107. IMPORTANT XIX & XX CENTURY FRENCH AND BRITISH PAINTINGS AND DRAWINGS. Until 19th DECEMBER, Mon-Fri. 10-5. Sats 10-12.30

WILLIAM WALCOT — Watercolours and etchings. The Building Centre, Gallery and Gallery Lingard at 26 STORE ST., London, WC1. Mon Fri. 10-5 Sat. 10-4.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

هكذا من الأصل

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Continued

Finance, Land, etc

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

High	Low	Stock	Price	+ or −	Div Net	Cvr	Yld Gr's
145	30	Anglo-Dominion	145	+9	—	—	—
42	19½	Anglo Utd	27	......	—	—	—
80	27	♥Colby Res Corp	28	......	—	—	—
300	115	Cons. Murch. 10c	£1⅞	......	Q60c	4.4	9.9
44	24	♦Ennex Int I£10p	39	−1	—	—	—
164	70	Greenwich Res	158	−2	—	—	—
157	93	Hampton Areas 10p	147	......	‡1.0	—	1.0
327	165	♥Highwood Res	208	−9	—	—	—
£20¼	£13⅞	Homestake Mining $1	£18	+¼	Q20c	—	0.8
310	156	♥McFinley Red Lake	200	......	—	—	—
285	144	♥Mosto Explorations	175	+1	—	—	—
51	28	♥New Saluna Res C$1	40	+1	—	—	—
353	200	Northgate C$1	305	+2	—	—	—
790	513	RTZ	457	−3	22.0	2.4	4.6
£164	£115	Do. 9½pcLn '95-2000	£138¾	......	Q9½%	15.5	7.1

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¤ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ‡ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −	Stock	Price	+ or −
Albany Inv 20p	60	......	Fin. 13% 97/02	£98¾	......
Craig & Rose £1	£15	......	Arnotts	350	......
Finlay Pkg. 5p	47	+1	CPI Hldgs	42	−3
Hall (Jos) 25p	820	......	Carrol Inds.	141	......
IoM Stm. £1	76	−2	Dublin Gas	10	......
			Hall (R. & H.)	98	......
IRISH			Heiton Hldgs.	27	−3
Fund 11¾% 1988	£97¼	......	Irish Ropes	140	......
Nat. 9¾% 84/89	£91⅞	......	Unidare	275	......

"Recent Issues" and "Rights" Page 42
(International Edition Page 46)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Dec 8	Dec 18	Dec 19	Jan 5
Dec 22	Jan 8	Jan 9	Jan 19
Jan 12	Jan 22	Jan 23	Feb 2

* New time dealings may take place from 9.00 am two business days earlier.

Late foreign buying enlivens Government bonds but equity sector sluggish

A dull session in London's securities markets was featured by a late rally in Government bonds as foreing buying reversed early losses in the sector. Late dealings saw gilt-edged securities edging higher after recouping initial falls.

Equities, however, had an uninspiring session, highlighted only by demand for pharmaceutical shares, focussed around Glaxo which will announce details of its news schizophrenia drug at the end of the week.

Demand for gilts from Far and Middle Eastern sources, indicted a fovourable response to the ltest statistics on UK Public Sector BMorrowing Requirement (PSBR). Domestic interest in gilts remained thin, with retail demand almost non-existent and bear positions still hanging over the market.

The November PSBR figures, showing negligible Government borrowing suggest that the UK authorities may call for no more than £200m monthly from the gilt edged market for the remainder of the financial year, according to Christopher Wickham of L. Messel.

Some overseas buyers apparently regard the "risk premium" on UK gilts, which reflects both the uncertainty over oil prices and the likelihood of an early UK election, as too high. UK gilt-edged yields are still in the 10 per cent-11 per cent range substantially higher than elsewhere.

On the equity side, oil shares ran out of steam as the OPEC meeting appeared to run into the traditional difficulties over prcing polices.

British Gas(against the backgrond of a dull enegry sector, gave up ½p to 63½p, with 204m shares traded. Japanese demand for Gas shares remained strong, comfortably taking up the selling pressure fromb British private nvestors. Some Lonodon brokers have run into problems in coping with the flow of small selling orders(and are trying to reduce their trading commitments.

Glaxo gained ground agan(on turnover of 2.9m shares as Greenwell Montague continued to lead the UK buying for the pharmaceutical group, which is expected to announce progress on its new schizophrenia drug tomorrow (Friday).

Also rising sharply were Fisons and Beecham. Elsewhere, small losses were recorded. Imperial Chemical Industries recouped a penny of Tuesday'sloss.

The FT-SE 100 Index eased 1.6 to 1636.3, whole the FT Ordinary index shed 3.5 to 1276.1.

Hogg Robinson pleases

Lloyd's broker Hogg Robinson featured Insurances with a rise of 12 at 359p following the better-than-expected interim results. Minet, however, softened 1½ more at 241½p on further consideration of the static nine-month profits performance. Equity and Law, in which Mr Ron Brierley's IEP Securities now holds a 17.16 per cent stake, firmed a couple of pence at 318p among Life issues. Pearl were notable for an improvement of - at £15¼, while Refuge added 6 at 445p and Sun Life moved up 4 at 923p. Composites plotted an irregular course. General Accident put on 3 at 807p and London United 10 at 468, but GRE softened a few pence at 769p.

Sporadic bouts of profit-taking clipped 13 from Standard Chartered, at 794p. The major clearers moved narrowly, but the volume of business in Lloyds and Midland was good; the former attracted a turnover of 1.3m shares and closed unaltered at 454p, while the latter ended a couple of pence lower at 567p after a volume of 1.4m shares. Foreign issues featured Deutsche 6 points better at £288¾.

An otherwise moribund session in Breweries provided an outstanding late feature in Mansfield which suffered a savage markdown to close 34 off at 400p after announcing interim profits of just £3.5m—well below market estimates; Barclays de Zoete Wedd for example, were anticipating a pretax figre around £4.3m.

Leading Buildings marked time, but secondary issues displayed several noteworthy movements. Nottingham Brick, a dull market in recent day's following the termination of merger discussions with Seetley, attracted revived demand and rose 18 to 283p. Wettern Brothers, however, which received a bid approach on Tuesday, lost 5 to 126p pending developments. Newman Tonks settled a penny cheaper at 159p following the smooth placing of 4m-plus shares to finance the acquisition of Quality, a US architectural hardware prodcts group, for $10m. Attwoods added a penny to 218p following details of the purchase of US waste disposal company, Petersen Group for $11.8m. Profit-taking in the wake of the good annual results and proposed 100 per cent scrip issue left Y. J. Lovell 14 off at 379p, but Tilbury Group attracted fresh support on hopes of an eventual full bid from Raine Industries and closed 7 higher at 213p.

Marks & Spencer down

Another good business was transacted in Marks and Spencer—well over 8.4m shares changed hands yesterday—but the trend was again to lower levels with the close 3 off at 176p. Burton improved a couple of pence at 260p and Woolworth, still reflecting the deal with Rosehaugh property group, hardened a few pence more at 678p. Elsewhere, buying on expansion hopes helped Body Shop jump 39 in a thin market to 737p. Goldsmiths hardened a couple of pence more to 264p on further consideration of the bid from Oriflame. Combined English closed 2 lower at 204p; a spokesman for the company yesterday categorically denied that Combined English intend to launch a counter bid for, or acquire, a stake in Goldsmiths.

Awaiting today's Government decision on Nimrod, GEC drifted down a penny to 165p, while around 8½m British Telecom shares changed hands and the close was unaltered at 201p; sentiment was not helped by news of a threat of industrial action being made by the company's engineers in pursuit of a 5 per cent pay claim. BICC eased 2 at 254p and Racal lost 4 at 173p.

Interest in Engineers centred chiefly on the secondary issues. Bullough featured a rise of 18 at 310p on the good results and the proposed acquisition of Hubbard-Reader Group for £9m cash and the allotment of just over 1.8m ordinary shares. Chemring, also reflecting preliminary figures, advanced 35 to 615p, while the reduction of its stake in Delta Electrical Industries of South Africa prompted an improvement of 35½ to 182p in Delta. Hopes of further restructuring moves following the recent sale of Russell Hobbs drew fresh attention to TI which gained 8 to 469p. Wellman, scheduled to reveal interim figures on Friday, made further progress at 48p, up 1½, but Babcock eased a penny to 184p following the company's denial of recent Press suggestions of a takeover from GEC. Asset injection hopes left Tyzack Turner 8 higher at 141p.

Pushed higher initially by a squeeze on bear positions, Hillsdown attracted a brisk business at the enhanced level and closed 8 up on balance at 228p. Other leading Foods were generally lower owing to the absence of further US buying, while Rowntree Mackintosh lost 6 at 392p. S. & W. Berisford gave up 4 at 282p and United Biscuits shed 11 to 234p. Recent takeover favourite Ranks Hovis McDougall came back 4 to 283p and Unigate slipped 3 to 310p. Among Retailers, Tesco were dull at 385p. Elsewhere, Alpine Soft Drinks attracted buyers following Press comment suggesting that the company had "shell" operation prospects and the price added 3 to 25p. Home Farm attracted support and rose 12 to 110½p.

Fisons good again

Pharmaceutical shares remained in the limelight with Fisons featuring a fresh gain of 16 at 538p following a broker's recommendation to switch from Glaxo into the former. Beecham, enlivened by news that the company has received approval from the West German regulatory authority to market its drug Eminase, advanced strongly with the help of late US demand to close 14 higher at 430p; 5.3m shares were traded. Glaxo became a quieter market (3.0m shares), but moved ahead further to close 17 higher at 1026p in anticipation of the announcement of a new drug to treat schizophrenia. Among the other miscellaneous industrial leaders, BOC benefited from comment on the full report and accounts, rising 5 to 359p. Pilkington improved a few pence to 641p as BTR extended its offer for the company to January 24. Elsewhere, sharply reduced interim profits left Jacksons Bourne End 5 cheaper at 265p, while lower annual figures prompted a reaction of 3 to 36p in Widney. Pentland met with profit-taking and reacted 18 to 470p, but William Sinclair came to life with a gain of 12 at 198p and Relyon put on a similar amount to 188p. Further consideration of the interim figures left BSS 5 better at 245p, while AAH rose 7 to 240p following the fuel distribution deal with Redland.

A more detailed assessment of the Kirby Central acquisition stimulated small interest in Plaxtons (GB), 2 firmer at 99p, but most Motor Vehicle and Component manufacturers tended to drift lower. C. D. Bramall were belatedly quoted ex scrip issue at 141p. Distributors turned irregular with Godfrey Davis advancing 4 more to 137p on continued bid speculation, but Caffyns easing 2 to 242p as recent buying enthusiasm subsided. Lex Service weakened again in the absence of worthwhile support and closed 5 down at 289p.

Referral of the proposed EMAP merger with Courier Press to the Monopolies Commission failed to dampen buyers' interest in the former's "A" shares which moved up 2 to 139p. Hopes of a good Christmas trading generated demand for John Waddington, up to 210p before settling higher on balance at 205p, while mooted expansion moves took WPP Group 28 higher to 675p. David S. Smith firmed 5 to 250p.

Early attention in the Property sector was focussed on British Land as the company announced the agreed acquisition of the Euston Centre from P & O for some £65.4m to be financed by a vendor placing: the company also revealed highly satisfactory half-year figures and the shares, after easing to 174½p, settled 3 cheaper at 175p. Other leading issues were a few pence lower in the absnce of buying interest with Land Securities a penny off at 331p and MEPC 2 cheaper at 342p. Elsewhere, UK Land revived with a gain of 10 at 255p, while Egerton Trust put on 5 to 111p following news of the company's move into US property development.

The opposition to British and Commonwealth's o+er for the equity not already-owned of Steel Bros., unchanged at 635p, made little impact of the H. & C. share price which settled marginally better at 287p. Milford Docks 73p, retained most of Tuesday's sharp rise following news that Avencourt had acquired a 25 per cent stake at 85p per share from certain directors.

Favourable Press mentionencouraged a further rise in Victoria Carpets to 138p before a close of 4 higher on balance at 135p. J. Beales, in which Throgmorton Nominees declared a 10.58 per cent stake yesterday, hardened 2 more to 187p, while Sekers benefited from a newspaper recommendation and ended 3 firmer at 117p.

Stale bull selling, the company was regarded a prime bid target before and after the recent offer for Exco, dragged Mercantile House down 12 further to 303p. Yule Catto were another dull spot in Financial Trusts and close 5 easer at 245p but Oceana Cons picked up 3 at 63p. Investments Trusts had Leda Capital shares 4 higher at 236p and Strata Investments 4 dearer at 148p. Rights and Issues Capital moved up 3 to a high for the year of 151p.

Oils quiet

The Oil majors gave a relatively steady performance despite reports of an apparent impasse in the current round of Opec talks. Trade was much reduced and prices hovered around overnight levels prior to settlinga shade lower on balance, mainly reflecting early Wall Street influences. British Petroleum were finally a couple of pence cheaper at 702p and Shell 6 off at 968p. Britoil were steady at 165p, but Ultramar softened a penny to 157p. Enterprise, still boosted by the injection of ICI's oil and gas interests which gives that latter a 25 per cent stake in the company, added 2 more to 177p, a two-day rise of 14. Conroy Petroleum revived and touched 113p prior to closing a net 6 up at 111p.

Lonrho edged back to 233p as Tuesday's revived demand faded. Other Overseas Traders alsod lost ground and Inchcape finished 4 lower at 486p.

Australians continued to feature otherwise subdued mining markets. The Federal Government's decision to retain the gold mining industry's present tax-exempt status again lifted Sydney and Melbourne to record levels and stimulated fresh support in London. Central Norseman were again to the fore, rising 25 for a two-day advance of 67 to 700p. Gold Mines of Kalgoorlie put on 8 to 728p, while similar rises were noted for Carr Boyd, 69p, Whim Creek, 225p, and Metana, 330p. As on Thursday, demad spilled over to bolster leading resource stocks, notably Renison, 11 dearer at 456p, and Western Mining, finally 5 better at 247p.

Dealers reported slightly improved trading conditions among South African Golds. A firmer

showing by the Financial Rand against the dollar offset slightly easier bullion—the metal fell $2 to $392 an ounce reflecting the current impasse at the Opec meeting—and resulted in sporadic and selective interest from Johannesburg and some Continental centres. Randfontein highlighted top-quality Golds rising a couple of pence to £63⅜. Elsewhere, Freegold hardened 10 to 808p, but other marginal stocks generally gave modest ground and the FT Gold Mines index dipped 0.7 to 315.9.

Jantar, the UK mining and commodity trading group, ffell 5 to 46p as Pioneer International Trust disposed of another 0.40m shares: Pioneer, in which Jantar chairman Edward Nasser has a non-beneficial interest, revealed earlier in the week that it had sold 29.9 per cent of Jantar to Bow Investments at 50p per share. Bisichi Tin met occasional offerings and ran back a few pence to 38p.

Traded Options

British Gas continued to dominate proceedings in traded options, but dealers reported that business was mich more evenly distributed between calls and puts, a view illustrated by the final volume figures. Calls totalled 10,552, the January 60's and April 70's attracting 5,838 and 2,229 calls respectively. Gas puts amounted to 6,665, the April 60's contributing 5,830.

Elsewhere, the expiry of the December series gave its usual boost to business. Hanson Trust was to the fore among those classes concerned, attracting 4,737 calls, 1,790 in the December 180's, and 1,256 puts. Lively turnover was also noted for Boots and Beecham with 1,511 and 1,555 calls struck respectively.

Traditional Options

- First dealings
  Dec 15 Jan 5 Jan 19
- Last dealings
  Jan 2 Jan 16 Jan 30
- Last declaration
  Mar 19 Apr 2 Apr 23
- For Settlement
  Mar 30 Apr 13 May 5

For rate indications see end of Unit Trust Service

Call options were taken out in International City, Amstrad, Rivlin, North Kalgurli, William Boulton, Myson, BSR, WSL, Tricentrol, Premier Oil, Wellman, Claremont, Western Motor A, Attwoods, Pentland, Greenwich Resources, Dalgety, Business Mortgages Trust, Fobel International, Martin Ford, F. J. C. Lilley, Sovereign Oil and Gas and Thermax. A put was done in Markheath, while a double was transacted in Amstrad.

FINANCIAL TIMES STOCK INDICES

	Dec. 17	Dec. 16	Dec. 15	Dec. 12	Dec. 11	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	82.13	82.30	82.39	82.34	81.60	82.70	94.51 (19/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	89.15	89.25	89.08	89.00	88.61	88.68	97.68 (2/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,276.1	1,279.6	1,280.3	1,280.4	1,284.7	1,104.6	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	315.9	316.6	313.2	311.7	316.9	250.1	357.8 (22/9)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.47	4.47	4.47	4.47	4.46	4.50				
Earnings Yld.%(full)	10.60	10.60	10.61	10.62	10.56	11.18				
P/E Ratio (net) (*)	11.57	11.58	11.57	11.56	11.62	11.04				
SEAQ Bargains (5pm)	34,415	38,336	29,882	30,340	31,290	—				
Equity Turnover (£m)	—	1360.01	1150.645	1,166.95	1,111.10	411.63				
Equity Bargains	—	61,657	45,843	45,522	51,868	17,914				
Shares Traded (ml)	—	703.9	505.3	571.6	550.9	224.1				

S.E. ACTIVITY

Indices	Dec. 16	Dec. 15
Gilt Edged Bargains	130.9	129.0
Equity Bargains	399.5	297.0
Equity Value	2748.9	2325.7
5-Day Average		
Gilt Edged Bargains	122.3	117.1
Equity Bargains	344.2	337.9
Equity Value	2425.8	2462.9

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1279.8	1279.5	1278.1	1275.2	1275.6	1275.3	1274.5	1273.4

Day's High 1280.3. Day's Low 1273.2

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.15.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (102)

AMERICANS (2), BANKS (2), BUILDINGS (4), STORES (6), ELECTRICALS (2), ENGINEERING (2), HOTELS (1), INDUSTRIALS (13), INSURANCE (2), LEISURE (2), MOTORS (1), NEWSPAPERS (3), PAPER (2), PROPERTY (4), TEXTILES (1), TRUSTS (38), OILS (2), OVERSEAS TRADERS (1), MINES (13).

NEW LOWS (16)

AMERICANS (1) Bethlehem Steel, BANKS (1) TSB, ELECTRICALS (3) Mellerware, Murray Tech Invs, Systems Reliability, FOODS (2) Cranswick Mill, Hillards, INDUSTRIALS (4) Bridgend Group, High-Point Services, NMW Computers, Pacific Sales, LEISURE (1) Media Tech Int, PAPERS (2) Moorgate, Norton Opax, TEXTILES (1) Pantherella, OVERSEAS TRADERS (1) GN Great Nordic.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 6 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	1,900	147	−2	Land Securities	1,200	331	−1
Allied Lyons	952	309	+1	Legal & Gen.	362	246	−2
BAT	2,100	472	+4	Lloyds Bnk	1,300	454	—
BOC	967	359	+5	Lonrho	464	233	−1
BTR	535	270	−1	Marks & Spncr	8,600	176	−3
Barclays	789	487	+2	Midland Bank	1,480	567	−2
Bass	759	731	+3	NatWest Bank	1,000	517	−2
Beecham	5,300	430	+14	Pearson	237	551	−6
Blue Circle	332	562	+1	P & O	489	495	−1
Boots	4,700	224	−1	Pilkington Bros	1,100	461	+3
Brit. Aero	1,500	493	+2	Plessey	1,000	173	—
Brit. Gas	204,000	63½	−0½	Prudential	952	807	+3
Britoil	3,200	165	—	Racal	1,100	173	−4
BP	4,100	702	−2	Rank Org	448	528	−3
Brit. Telecom	8,700	201	—	Reckitt & Col	277	832	+3
Burton	1,400	260	+2	Reuters	402	573	—
Cable & Wire	1,700	322	+1	RTZ	174	657	−3
Cadbury Schwps.	4,700	183	−2	Rowntree Mac	264	392	−6
Coats Viyella	677	467	+3	Royal Insurance	281	834	—
Comm. Union	1,000	267	−2	STC	1,200	168	—
Cons. Gold	318	667	+3	Sainsbury	100	412	−2
Courtaulds	1,200	388	+1	Sears	2,700	120	−1½
Dee Corp	422	284	−2	Sedgwick	1,400	323	+3
Dixons Grp	1,700	316	−2	Shell Trans	806	968	−5
Fisons	4,300	538	+16	Smith & Nephew	4,200	120	+5
Gen. Accident	630	807	+3	Standard Charl	384	794	−13
Gen. Elect.	2,700	165	−1	Storehouse	1,600	268	+2
Glaxo	3,000	1,026	+17	Sun Alliance	221	637	+3
Grand Met	1,300	460	−3	TSB	15,000	74	−1½
Gas "A"	198	£10 5/16	—	Tesco	1,000	385	−5
Guardian R.E.	112	769	−3	Thorn EMI	297	472	−2
GKN	1,600	261	−5	Trafalgar House	1,700	260	—
Guinness	2,200	299	+3	T'house Forte	4,900	172	−4
Hanson Trust	3,400	186	—	Unilever	141	£21½	−0¼
Hawker Sidd	175	433	−2	United Biscuits	1,300	234	−1
ICI	960	£10 11/16	—	Wellcome	718	215	—
Jaguar	1,300	518	−2	Woolworth	477	678	+3
Ladbroke	630	368	—				

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	15	70	27
Corporations, Dominion and Foreign Bonds	0	12	57
Industrials	365	519	651
Financial and Properties	144	159	280
Oils	21	28	64
Plantations	2	2	10
Mines	60	27	98
Others	97	45	59
Totals	704	862	1,246

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

		Wed Dec 17 1986 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 29%)	Est. P/E Ratio (Net)	xd adj. 1986 to date	Tues Dec 16 Index No.	Mon Dec 15 Index No.	Fri Dec 12 Index No.	Year ago (approx.) Index No.
1	CAPITAL GOODS (210)	674.25	−0.3	9.26	3.87	13.67	17.01	676.49	677.38	677.82	561.85
2	Building Materials (27)	850.83	−0.3	8.92	3.61	14.11	18.98	853.44	853.97	852.13	611.40
3	Contracting, Construction (29)	1162.80	−0.1	8.10	4.00	16.96	32.81	1164.09	1158.61	1157.20	904.57
4	Electricals (12)	1723.94	−0.5	8.75	4.89	14.67	56.02	1732.30	1735.00	1732.22	1506.92
5	Electronics (38)	1434.15	−0.5	10.07	2.87	13.18	30.56	1441.71	1444.20	1446.69	1406.85
6	Mechanical Engineering (61)	382.82	+0.1	10.30	4.31	12.35	11.18	382.28	382.17	381.90	318.66
8	Metals and Metal Forming (7)	347.29	−0.5	10.20	4.28	12.13	10.25	348.97	348.97	349.43	236.69
9	Motors (15)	262.67	−0.7	10.52	4.00	10.96	6.73	264.65	263.87	266.77	201.44
10	Other Industrial Materials (21)	1171.25	−0.5	7.58	4.70	15.66	38.57	1176.58	1186.01	1187.07	990.11
21	CONSUMER GROUP (186)	935.07	+0.1	8.18	3.40	15.40	21.04	934.35	934.31	930.70	752.22
22	Brewers and Distillers (22)	934.76	—	9.00	3.64	13.90	17.52	934.57	941.15	941.62	757.06
25	Food Manufacturing (24)	730.18	−0.6	9.30	3.86	14.09	19.22	734.27	734.71	735.40	558.52
26	Food Retailing (16)	1820.51	−0.8	7.17	2.96	19.42	35.41	1835.15	1838.78	1834.14	1719.40
27	Health and Household Products (10)	1598.61	+1.9	5.94	2.38	19.51	26.19	1568.32	1539.98	1519.43	1190.63
29	Leisure (29)	963.34	−0.5	7.81	4.21	16.75	26.80	967.71	966.93	971.34	751.54
32	Publishing & Printing (14)	2708.80	−0.5	7.19	4.21	17.92	77.81	2722.21	2727.26	2709.95	1831.20
33	Packaging and Paper (14)	482.56	−0.2	7.21	3.46	17.96	11.74	483.64	481.50	481.73	362.71
34	Stores (38)	814.86	−0.5	7.81	3.30	17.40	17.41	818.80	828.87	822.57	756.41
35	Textiles (17)	543.21	+0.3	9.81	3.76	11.73	14.49	541.56	540.39	540.60	377.20
36	Tobaccos (2)	1318.95	+0.8	12.55	3.92	8.75	36.99	1308.38	1296.40	1294.67	878.07
41	OTHER GROUPS (86)	799.03	—	9.04	4.16	14.19	17.75	799.20	796.25	795.68	701.77
42	Chemicals (20)	1008.29	+0.2	8.80	4.35	13.84	29.59	1006.32	1008.50	1015.12	726.19
44	Office Equipment (4)	258.37	−0.3	7.19	4.12	16.81	7.55	259.18	256.66	256.27	218.99
45	Shipping and Transport (12)	1513.40	—	7.92	4.61	16.10	46.25	1513.70	1520.24	1532.46	1318.48
47	Telephone Networks (2)	803.05	+0.1	11.65	4.80	11.70	16.67	802.52	790.96	783.61	877.95
48	Miscellaneous (48)	1102.84	−0.2	7.02	3.26	17.55	17.30	1105.57	1107.13	1107.55	860.29
49	INDUSTRIAL GROUP (482)	840.71	—	8.65	3.70	14.65	19.42	841.11	840.62	838.94	696.75
51	Oil & Gas (18)	1469.89	−0.4	11.58	6.17	10.93	62.91	1475.57	1481.58	1446.60	1103.44
59	500 SHARE INDEX (500)	893.99	−0.1	9.08	4.06	13.95	22.85	894.86	894.95	890.32	731.76
61	FINANCIAL GROUP (118)	606.20	−0.1	—	4.71	—	18.95	606.92	607.27	609.03	509.71
62	Banks (8)	668.73	−0.3	18.81	5.49	7.30	24.78	670.67	668.00	669.93	514.83
65	Insurance (Life) (9)	856.96	+0.3	—	4.54	—	27.29	854.12	857.71	864.59	770.74
66	Insurance (Composite) (7)	452.21	—	—	4.80	—	15.57	452.17	453.79	456.77	394.42
67	Insurance (Brokers) (9)	1159.62	+0.4	8.07	4.54	16.15	36.30	1155.41	1156.93	1154.31	1148.44
68	Merchant Banks (11)	341.76	+0.1	—	4.22	—	7.35	341.35	341.62	339.11	281.36
69	Property (49)	798.88	−0.4	5.96	3.63	21.79	19.48	802.18	804.59	806.01	669.25
70	Other Financial (25)	363.15	−0.4	8.87	4.37	13.77	9.81	364.53	365.00	365.43	301.52
71	Investment Trusts (97)	869.27	—	—	2.65	—	16.23	869.39	866.26	865.73	639.64
81	Mining Finance (2)	327.76	−0.1	9.55	4.90	12.31	11.30	328.09	328.73	328.15	244.33
91	Overseas Traders (13)	750.55	−0.8	10.58	5.96	11.43	29.74	756.71	748.23	748.66	582.67
99	ALL-SHARE INDEX (730)	817.34	−0.1	—	4.12	—	21.52	818.18	818.13	815.18	667.66

	Index No.	Day's Change	Day's High	Day's Low	Dec 16	Dec 15	Dec 12	Dec 11	Dec 10	Year ago
FT-SE 100 SHARE INDEX ♦	1636.3	−1.6	1639.5	1634.3	1637.9	1637.8	1629.8	1634.0	1634.6	1378.8

FIXED INTEREST

	PRICE INDICES	Weds Dec 17	Day's change %	Tues Dec 16	xd adj. today	xd adj. 1986 to date
	British Government					
1	5 years	118.88	−0.01	118.89	—	11.26
2	5-15 years	129.09	−0.10	129.22	—	13.32
3	Over 15 years	134.37	−0.04	134.43	—	13.41
4	Irredeemables	147.60	−0.48	148.31	—	13.57
5	All stocks	127.67	−0.06	127.75	—	12.76
	Index-Linked					
6	5 years	115.79	+0.04	115.75	—	2.00
7	Over 5 years	112.57	+0.07	112.49	—	3.01
8	All stocks	113.06	+0.07	112.99	—	2.84
9	Debentures & Loans	110.32	−0.16	110.50	—	11.72
10	Preference	78.81	+0.07	78.75	—	6.36

	AVERAGE GROSS REDEMPTION YIELDS		Weds Dec 17	Tues Dec 16	Year ago (approx.)
	British Government				
1	Low	5 years	9.89	9.88	10.18
2	Coupons	15 years	10.46	10.43	10.36
3		25 years	10.46	10.43	10.37
4	Medium	5 years	11.21	11.18	11.21
5	Coupons	15 years	10.80	10.80	10.72
6		25 years	10.47	10.47	10.31
7	High	5 years	11.26	11.23	11.29
8	Coupons	15 years	10.98	10.98	10.86
9		25 years	10.53	10.53	10.47
10	Irredeemables†		10.20	10.15	9.83
	Index-Linked				
11	Inflat'n rate 5%	5 yrs	3.82	3.83	0.0
12	Inflat'n rate 5%	Over 5 yrs	3.76	3.77	0.0
13	Inflat'n rate 10%	5 yrs	2.23	2.23	0.0
14	Inflat'n rate 10%	Over 5 yrs	3.59	3.59	0.0
15	Debs &	5 years	11.76	11.75	11.55
16	Loans	15 years	11.68	11.66	11.40
17		25 years	11.59	11.57	11.40
18	Preference†		11.85	11.86	11.92

♦Opening index 1639.4; 10 am 1638.8; 11 am 1638.0; Noon 1636.6; 1 pm 1637.6; 2 pm 1637.0; 3 pm 1635.6; 3.30 pm 1635.1; 4 pm 1634.3

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

LONDON TRADED OPTIONS

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA — GERMANY — NORWAY — AUSTRALIA (continued) — JAPAN (continued)

BELGIUM/LUXEMBOURG — DENMARK — FINLAND — NETHERLANDS — ITALY — FRANCE — SPAIN — SWEDEN — SWITZERLAND — AUSTRALIA — HONG KONG — JAPAN — SINGAPORE — SOUTH AFRICA

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO

Closing prices December 17

MONTREAL

Closing prices December 17

F—No voting rights or restricted voting rights.

Indices

NEW YORK — DOW JONES

STANDARD AND POORS

NYSE ALL COMMON

NYSE-Consolidated 1500 Actives

Advances 581 Declines 1,182

TORONTO	Dec 17	Dec 16	Dec 15	Dec 12	1986 High	1986 Low
Metals & Minls	1,948.58	1,965.23	n/a	1,971.38	2,442.85 (21/3)	1,817.4 (5/8)
Composite	3,020.48	3,038.6	3,021.98	3,041.6	3,128.11 (18/4)	2,754.0 (17/2)
MONTREAL Portfolio	1,526.36	1,528.3	1,525.58	1,524.92	1,623.3 (18/4)	1,386.6 (22/1)

* Indicates pre-close figure

WORLD M S. Capital Intl.(1/1/70)	—	355.7	354.4	353.7	360.6 (1/8)	249.8 (28/1)

** Saturday December 13: Japan Nikkei (c). TSE (c).

Base value of all Indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

TOKYO — Most Active Stocks
Wednesday, Dec 17, 1986

	Stocks Traded	Closing Price	Change on Day		Stocks Traded	Closing Price	Change on Day
Hitachi Ltd.	23.9m	1,150	−20	Tobishima	11.3m	985	+20
Japan Line	14.3m	98	−3	Tokyo Gas	11.2m	1,140	−50
Sharp	12.4m	1,180	+40	Tokio Mar & Fire	18.7m	1,830	−20
Mats Elec Ind	11.9m	2,150	unch	Morinaga	7.6m	791	+10
Nippon Oil	11.5m	1,390	−60	Kirin Brewery	8.7m	1,630	+40

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 48

EUROPE

Corporate news offers inspiration

Continued from Page 50

Paris moved lower again under the influences of a higher Bank of France money market intervention rate and end-of-month profit-taking.

Among electronics, Thomson-CSF lost FFr 40 to FFr 1,600 following news of its planned share offering. Matra, which is handing over control of its watchmaking activities to Seiko of Japan, eased FFr 5 to FFr 2,415.

Among the few advances, Avions Dassault gained FFr 30 to FFr 1,350 after reports of a jet fighter purchase by the French Defence Ministry.

Milan pursued Tuesday's upturn as corporate news provided a spur. Montedison gained L75 to L2,935 following Ferruzzi's plan to increase its stake in the chemicals group IFI, with higher profits, added L650 to L27,550.

Olivetti, which has bought the Italian economic news wire service Radiocor, was steady at L12,700.

Stockholm was steady or narrowly mixed at the close with trading boosted by a slight drop in credit market rates. The Veckans Affarer all-share index closed at 888.9 after 886.3 on Tuesday.

Helsinki was mixed near peak levels. Rauma Repola, the shipbuilding and offshore group, was steady at FM 21. It has bought a majority stake in Osel Group of the UK.

LONDON Chief price changes (in pence unless otherwise indicated)

RISES						FALLS		
Beecham	430	+14	Chemring	615	+35	Jantar	46	−5
Body Shop	737	+30	Conroy Pet.	111	+6	Lovell (Y.J.)	379	−14
Bullough	310	+18	Fisons	538	+16	Mansf. Brew.	400	−34
Central Norseman	700	+25	Glaxo	£10¼	+⅛	Mercant House	303	−12
Hogg Robinson	359	+12	Hillsdown	228	+8	Pentland Inds.	470	−18
Nott. Brick	283	+18	Vic. Carpets	135	+4	Yule Catto	245	−5
TI Group	469	+8	WPP	675	+28			
Tor Inv. Cap.	485	+10						

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	16¼	AAR s	.44	1.8	18	464	25	24½	24½	−¼
30	27⅝	ADT	.92	3.4		945	27⅞	26	27⅞	+1½
33	16½	AFG s	.12b	.4	15	1485	30½	29	29½	−⅞
29	16¾	AGS			18	47	27⅞	27⅝	27⅞	+⅛
15	7	AMCA				35	7¼	7⅛	7⅛	
62½	39¼	AMR			13	2880	56¼	55⅜	55⅞	+⅜
27½	23¾	ANR pf2.67		10.		2	26¼	26¼	26¼	−½
16¾	10	ARX	.71t	6.2	11	71	11¾	11½	11½	
47½	28¾	ASA	2a	5.4		226	37⅛	36¾	36¾	−¼
18⅝	9¾	AVX			29	202	11⅛	11	11	+⅛
32	26	AZP	2.72	9.6	8	1801	28⅝	28⅜	28⅜	−¼
55	31⅝	AbtLb s .84		1.8	21	4758	48⅛	47⅜	47⅞	−1
32	25	AccoWd .56		2.1	17	125	26½	26¼	26⅜	+⅛
14⅛	9	AcmeC .40		3.7		698	10¾	10⅜	10¾	+⅛
9¼	6⅜	AcmeE .32b		5.0	16	14	6⅜	6¼	6⅜	−⅛
23⅞	17½	AdaEx 4.45e		23		237	20	19⅝	19½	−⅜
20⅝	12⅞	AdvSys .45t		8.6	14	154	17¼	16¼	16⅞	
32⅞	12⅞	AMD				1591	14½	14¼	14⅜	−⅛
12⅜	5¼	Adobe				89	6⅜	6¼	6¼	−⅛
18⅝	13¾	Adob pf1.84		12.		3	15⅛	15⅛	15⅛	
20¼	16⅝	Adob pf2.40		14.		30	17¼	17¼	17¼	
18⅝	10⅞	Advest .12a		.9	10	183	13¼	12⅞	13	+⅜
66¼	51½	AetnLf 2.64		4.7	8	7554	57⅜	55⅝	55⅞	−1½
54⅝	51⅛	AetL pf3.94e		7.6		107	52	51¾	51⅞	+⅛
77½	34⅞	AflPb s .44		.6	34	459	71¼	70	71	−1¼
28⅝	15	Ahmns .45		2.0	7	5368	23⅜	22¼	22⅞	−¼
5¾	2⅞	Aileen			43	263	3⅛	3	3	−⅛
41⅜	27⅛	AirPrd s .80		2.2	448	2198	36⅝	35¾	35⅞	−⅛
32	16	AirbFrt .60		2.1	20	112	29¼	28¼	28¼	−1½

Continued on Page 49

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17	8¾	Zemex	.40	2.9	21	32	13¾	13½	13¾	−⅛
29⅞	17⅞	ZenithE				734	21⅝	21¼	21⅜	+⅜
18¼	8	ZenLb s			67	809	9½	9⅜	9⅜	−⅜
22⅝	12⅝	Zero s	.28	1.8	15	336	15¼	15	15	
45¾	32¼	Zurmin	1.32	3.4	16	142	39¾	39⅛	39⅛	−⅜
10⅞	8¾	Zweig n				488	9	8¾	8⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER

Nasdaq national market, closing prices

Continued on Page 47

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Oils suffer worst in downturn

WITH many investors beginning to unwind their futures and options positions ahead of Friday's contract expiration date, stock prices fell yesterday, *writes Roderick Oram in New York.*

In contrast, bond prices were little changed in light trading as the revised third quarter GNP met market expectations. The Dow Jones industrial average closed down 17.85 points at 1,918.31 with half the loss coming in the last hour. The New York Stock Exchange composite index fell 1.31 points to 141.56 on volume of 148.8m with declining issues outweighing rising by a ratio of more than two-and-a-half to one.

Among blue chips, American Express eased $½ to $59, AT&T rose $¼ to $27¼, General Electric lost $1 to $86⅞, IBM fell $1⅝ to $126¾, Minnesota Mining and Manufacturing lost $⅜ to $115⅞. Procter and Gamble was down $1½ at $78¾ and Sears Roebuck lost $⅜ to $41⅛.

Oil stocks moved sharply lower as crude oil futures prices fell in the wake of Opec's continuing inability to agree on production cuts. Exxon lost $1 to $71⅞, Chevron lost $1½ to $46¼, Texaco declined $½ to $35, Amoco was off $1¼ to $66 and Atlantic Richfield dropped $1¼ to $59.

Honeywell, down $⅜ to $63½, said it would report a loss for 1986 after taking a $500m charge in the fourth quarter from transferring its computer interests to a joint venture between it, NEC of Japan and Bull of France.

Lear Siegler, a West coast industrial group, jumped $14⅛ to $89⅝ after it agreed to a management buyout at $92 a share, apparently ending a long saga of failed bids over recent months from Wicks and AFG Partners.

The agreed takeover of InterFirst by RepublicBank, bringing together two of the largest bank holding companies in Texas, pushed down share prices of both companies. RepublicBank fell $2⅜ to $19 and InterFirst slipped $⅛ to $4⅞, both on heavy volume.

General Motors lost $1¼ to $68. It saaid it disagreed with the sharply reduced earnings forecasts made by a leading auto industry analyst. The other two leading vehicle makers were mixed. Ford Motor gained $¼ to $57½ while Chrysler fell $⅜ to $39½.

Pan Am was again among the most active stocks, falling $⅛ to $4¼ on volume of almost 2m shares.

Against a background of generally strong bookings for the Christmas holidays other airline stocks performed better than Pan Am. AMR, the American Airlines parent, gained $⅜ to $55⅜, UAL, the United parent, rose $¼ to $57.

CPC International, the food group which recently paid greenmail to Mr Ronald Perelman's investment group to thwart a hostile takeover bid, advanced 1½ to $80⅞.

Manville fell $⅜ to $1⅞. The building and forest products group's reorganisation plan under which common shareholders stake would be severely diluted was approved by a bankruptcy court judge.

Henley Group, a collection of businesses spun off earlier this year by Allied Signal in the largest US initial public share offering, rose $½ to $22½. Allied, down $⅝ to $42⅞, said it was considering selling its 15.6 per cent stake in Henley.

Bond prices were little changed on the day in light and featureless trading. The 7.50 per cent benchmark Treasury long bond added 1/16 of a point to 101 7/16 at which it yielded 7.37 per cent.

Three-month Treasury bills rose four basis points to 5.62 per cent, six-month bills gained five basis points to 5.62 per cent and year bills edged up two basis points to 5.58 per cent.

The Federal Reserve supplied liquidity to the market for the third day running by making overnight system repurchases.

The Fed funds rate remained on the high side, however, at around 8 per cent, up sharply from 6⅞ per cent at the opening.

Yesterday's auction of $10.28bn of two-year notes brought a yield of 6.31 per cent on the 6.25 per cent coupon securities.

EUROPE

Corporate news offers inspiration

LOCAL corporate and interest rate moves provided the only inspiration in Europe yesterday and most bourses ended lower or little changed in often thin trading.

Frankfurt had a firm start but share prices slipped back later to end close to Tuesday's levels in fairly low turnover. The Commerzbank index, calculated at midsession, added 4.0 to 2,057.1.

After Tuesday's rally, end-of-year apathy and an absence of any significant new trends kept investors away again.

Only corporate news played an influential role as the troubles at Thyssen Stahl took the rest of the steel sector down along with engineering stocks. Thyssen lost DM 9.80 to DM 133.70 and Hoesch fell DM 6.60 to DM 116, both lows for the year. In the engineering sector, Mannesmann was DM 2.50 down at DM 178.50 and MAN dropped DM 6.50 to DM 198.

Cars saw Daimler finish steady at DM 1,240 ex-rights, the day's low. The company said it expected 1986 profits similar to last year. VW ended DM 2.30 up at DM 436.50 after reaching DM 441 at one stage, but BMW eased DM 5 to DM 585.

Retailers were unchanged to easier after their spurt early in the week.

Bonds rose in another quiet session on the back of a small increase in US Treasury bond prices in London trading.

The Bundesbank sold DM 39m worth of paper after selling DM 27m on Tuesday.

Amsterdam eased amid continuing concern over a possible interest rate rise. Sentiment was also cautious in advance of the IMF's choice of a new managing director, with Dutch Finance Minister Onno Ruding one of the two candidates.

Internationals went with the trend, Philips easing FL 1 to Fl 43.60 and KLM down Fl 1.30 at Fl 41.70.

Zurich was narrowly mixed in thin trading with only corporate movements having an impact. Brown Boveri and Autophon rose after plans for a joint radio venture, with the former adding SFr 5 to SFr 1,825 and the latter SFr 100 to SFr 8,350.

The planned US curbs on imports of machine tools, which Switzerland is opposing, had limited impact with Georg Fischer steady at SFr 1,820 and Oerlikon-Bührle off SFr 30 to SFr 1,385.

Brussels was active on the last day of the trading account, closing mixed after some position-squaring.

In a generally higher bank sector, Société Générale closed BFr 40 up at BFr 3,485 after news of a new D-Mark bond issue and plans for a listing on the Frankfurt bourse.

Continued on Page 47

MADRID continued on its record run yesterday with a fresh 0.48 gain in the Stock Exchange index to a peak 204.10 as foreign buyers concentrated funds on banks.

Mr Manuel de la Concha, bourse chairman, said that much of this year's record market gains were due to overseas investment and good corporate profitability.

Net profits for 4,000 major companies have doubled to over $2bn as interest rates fell and as a healthy economic outlook developed, he said. Foreign turnover on the bourse is expected to exceed $4.2bn against $930m last year with Britain the dominant investor country with $777m.

Yesterday Banca Bilbao rose 4 percentage points to 1,309 percent of nominal value while Vizcaya jumped 7 points to 1,597 per cent. ERT among chemicals firmed 2 points to 294 per cent while Petromed surged 25 points to 755 per cent.

Constructions and communications, however, displayed some weakness.

TOKYO

Institutions trigger profit-taking

AFTER a strong start, share prices turned down in Tokyo yesterday, dampened by growing investor concern over their high levels, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei market average which shed 234 points by mid-afternoon ended down 85.30 at 18,847.77. Volume totalled 553m shares compared with Tuesday's 612m. Declines outnumbered advances 532 to 301, with 166 issues unchanged.

The market made a strong start, spurred by Wall Street's continued advance but institutional profit-taking in blue – chips and large-capital stocks triggered concern over high price levels. Investor buying enthusiasm was also depressed by a record-breaking margin buying balance and rumours that the Finance Ministry will soon unveil a plan to tax capital gains.

In the bearish picture, many blue chips fared well, supported by the yen's weakness against the dollar and prospects for an improvement in export profitability.

Hitachi, which surged to a record high on Tuesday, fell Y20 to Y1,150, hit by institutional selling, although it topped the active list with 23.95m shares changing hands.

Some speculative issues firmed. Tobishima rose Y20 to Y965 and Morinaga Y10 to Y791. However, Japan Line, a deficit-ridden shipping group which was bought heavily the previous day on the strength of reports on its rehabilitation programme, came under profit-taking pressure, ending Y3 lower at Y98. Japan Line was the second busiest issue with 14.34m shares.

Fuji Photo Film and Sharp rose Y150 and Y40 to records of Y3,720 and Y1,180, respectively. Sharp was the third most active stock with 12.49m shares. Kirin Brewery jumped Y40 to Y1,630

Among large-capital stocks, Nippon Kokan declined Y11 to Y226 and Kawasaki Steel Y13 to Y171.

Nippon Oil, which had been popular on prospects for a recovery of the oil market, lost Y60 to Y1,390.

Bond prices fluctuated sharply, mirroring uncertainty over crude oil price trends.

The yield on the 5.1 per cent government bond, maturing in June 1996, opened at 5.285 per cent, down from Tuesday's finish of 5.310 per cent.

The yield rose to 5.315 per cent after the Bank of Japan purchased Y50bn worth of government bonds with remaining maturities of around nine years. It finished the day at 5.295 per cent.

LONDON

A LATE RALLY in government bonds brightened up the London securities markets yesterday as foreign buying reversed early losses.

Strong demand for gilts, from the Far and Middle East sources, indicated a favourable reaction to the latest public sector borrowing requirement data.

In the stock market, oils ran out of steam amid the Opec impasse. BP shed 2p to 702p on 4.1m shares while Britoil held steady at 165p on 3.2m shares. British Gas, active again with over 204m shares changing hands, dipped ½p to 63½p as Japanese buyers mopped up heavy UK private investor sales.

Glaxo jumped 17p to £10.26 ahead of an announcement soon on a new schizophrenia drug.

The FT-SE 100 index eased 1.6 to 1,636.3 and the FT Ordinary index dipped 3.5 to 1,276.1.

Chief price changes, Page 47; Details, Page 46; share information service, Pages 44–45

CANADA

BANKS emerged as one of the strongest sectors in a mixed Toronto.

Among active issues, Bank of Montreal traded C$⅝ up to C$33¼, Royal Bank of Canada edged C$¼ higher to C$32⅞ and Canadian Imperial Bank of Commerce firmed C$⅛ to C$20¼.

Oil and gas issues turned lower with PanCanadian Petroleum C$⅝ off at C$25¾ although Ranger Oil traded C$⅛ up to C$6⅞ on its plans to buy back up to 4 per cent of its common shares next year.

Montreal traded largely unchanged.

SOUTH AFRICA

THE STRONGER BULLION price failed to offset the firmer financial rand and a lack of buying interest in Johannesburg.

Southvaal dropped R4.50 to R186.50 and Driefontein at R68.25 was R1.75 lower.

Other mines followed suit with leading diamond producer De Beers 85 cents cheaper at R34.25 and Rustenburg Platinum R1.65 down at R45.50.

AUSTRALIA

Golds pave way to fresh peak

FURTHER SUPPORT for golds and fresh buying of industrials pushed Sydney to another peak and left the All Ordinaries 7.1 higher at 1,453.8.

The active gold sector was attributed to the federal government decision to leave intact the tax-free status of domestic gold producers while a stronger Australian dollar buoyed industrials on the hopes that domestic interest rates will fall.

Central Norseman led golds higher with its 80-cent jump to A$15.00 as Renison closed 30 cents ahead at A$9.80 and Western Mining scored a 18-cent gain to A$5.36.

Oils retreated in line with the uncertainty over the Opec talks: Santos lost 13 cents to A$4.05 and BHP dipped 2 cents to A$8.76.

The media sector was active ahead of Mr Rupert Murdoch's consolidation of his grip on the South China Morning Post. News Corp lost 10 cents to A$16.60, Herald & Weekly Times picked up 10 cents to A$12.30 and Queensland Press reversed the losses of the previous day with a 60 cent gain to A$16.80.

HONG KONG

DOMESTIC investors stepped up their selling in Hong Kong and forced the Hang Seng Index 29.60 lower to 2,411.08 and the Hong Kong Index 19.43 down to 1,535.39.

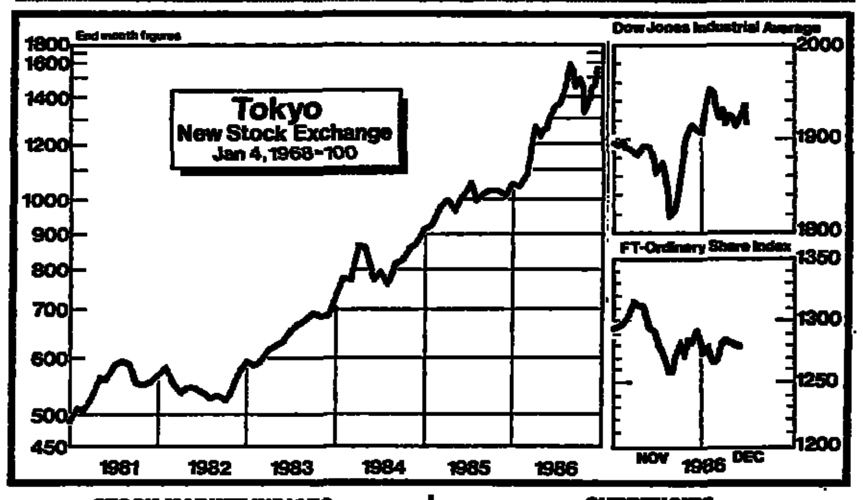
Interim profits from HK Wharf and World International contained no surprises although a redeployment of assets was considered disappointing. The former shed 20 cents to HK$8.95 and the latter 2½ cents to HK$3.62½.

SINGAPORE

SPORADIC bargain hunting injected some life into Singapore and boosted the Straits Times industrial index 9.71 to 890.03. Local and foreign institutions kept to the sidelines ahead of the forthcoming holidays although volume increased to 12.4m shares from Tuesday's 8.1m.

Faber Merlin, which announced a steep loss for the year, dropped 5½ cents to 33½ cents on 751,000 shares.

KEY MARKET MONITORS



STOCK MARKET INDICES

NEW YORK	Dec 17	Previous	Year ago
DJ Industrials	1,918.31	1,936.16	1,544.50
DJ Transport	829.58	833.33	719.57
DJ Utilities	210.67	212.40	173.16
S&P Composite	247.56	250.04	210.65
LONDON			
FT Ord	1,276.1	1,279.6	1,104.6
FT-SE 100	1,636.3	1,637.9	1,365.4
FT-A All-share	817.34	818.18	667.66
FT-A 500	893.99	894.86	731.76
FT Gold mines	315.9	316.6	250.1
FT-A Long gilt	10.53	10.53	10.44
TOKYO			
Nikkei	18,847.77	18,932.99	13,128.9
Tokyo SE	1,563.23	1,574.49	1,046.35
AUSTRALIA			
All Ord.	1,453.8	1,446.7	980.5
Metals & Mins.	715.2	701.1	474.8
AUSTRIA			
Credit Aktien	230.49	231.51	234.77
BELGIUM			
Belgian SE	4,065.54	4,064.42	2,887.81
CANADA			
Toronto			
Metals & Minls	1,948.50	1,965.2	2,107.0
Composite	3,028.40	3,030.6	2,884.3
Montreal			
Portfolio	526.35	528.34	142.07
DENMARK			
SE	—	192.16	232.78
FRANCE			
CAC Gen	410.00	413.40	253.4
Ind. Tendance	—	163.80	95.1
WEST GERMANY			
FAZ-Aktien	680.06	—	616.56
Commerzbank	2,057.10	2,053.10	1,836.5
HONG KONG			
Hang Seng	2,411.08	2,440.68	1,720.45
ITALY			
Banca Comm.	694.84	681.72	444.79
NETHERLANDS			
ANP-CBS Gen	280.20	280.40	241.2
ANP-CBS Ind	277.30	280.30	224.5
NORWAY			
Oslo SE	361.11	361.74	397.80
SINGAPORE			
Straits Times	890.03	880.32	638.45
SOUTH AFRICA	Dec 17	Prev	Year Ago
JSE Golds	—	1,917.0	1,108.7
JSE Industrials	—	1,384.0	1,034.1
SPAIN			
Madrid SE	204.10	203.62	101.12
SWEDEN			
J & P	2,447.08	2,444.67	1,713.10
SWITZERLAND			
Swiss Bank Ind	—	589.10	558.0
WORLD	Dec 16	Previous	Year ago
MS Capital Int'l	355.7	354.40	253.20

COMMODITIES

(London)	Dec 17	Prev
Silver (spot fixing)	375.25p	378.90p
Copper (cash)	£934.00	£933.50
Coffee (March)	£1,750.00	£1,787.50
Oil (Brent blend)	$15.50	$15.90

GOLD (per ounce)

	Dec 17	Prev
London	$392.00	$394.00
Zürich	$392.45	$393.75
Paris (fixing)	$391.90	$392.48
Luxembourg	$393.35	$394.00
New York (Feb)	$394.2 *	$395.10

CURRENCIES

(London)	US DOLLAR Dec 17	US DOLLAR Previous	STERLING Dec 17	STERLING Previous
$	–	–	1.4300	1.4300
DM	2.0160	2.0185	2.8825	2.8875
Yen	163.60	163.85	234	234.25
FFr	6.60	6.61	9.4375	9.4525
SFr	7,7010	1.7050	2.4325	9.4375
Guilder	2.2780	2.2835	3.2575	3.265
Lira	1,396.5	1,398.5	1,997	2,000
BFr	41.95	42.00	60.00	60.05
C$	1.3785	1.3795	1.9720	1.9725

INTEREST RATES

Euro-currencies (3-month offered rate)	Dec 17	Prev
£	11⅜	11 5/16
SFr	4 9/16	4⅝
DM	4 15/16	4 15/16
FFr	8⅞	8 15/16
FT London Interbank fixing (offered rate)		
3-month US$	6½	6⅝
6-month US$	6 9/16	6¼
US Fed Funds	7¾*	5⅞
US 3-month CDs	6.00*	6.225
US 3-month T-bills	5.63*	5.73

US BONDS

Treasury		December 17* Price	December 17* Yield	Prev Price	Prev Yield
6⅞	1988	99 29/32	6.299	99 29/32	6.282
7¼	1993	100 23/32	6.952	100 24/32	6.958
7⅜	1996	101 1/32	7.101	100 30/32	7.114
7¼	2016	101 13/32	7.373	101 12/32	7.384

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index	Dec 17 Day's change	Yield	Day's change
1–30	160.59	+0.12	6.91	+0.0
1–10	152.65	+0.01	6.62	+0.01
1–3	142.28	+0.02	6.31	+0.02
3–5	155.53	+0.04	6.69	+0.01
15–30	189.01	+0.48	7.86	−0.02

Source: Merrill Lynch

Corporate	December 16* Price	December 16* Yield	Prev Price	Prev Yield
AT & T				
3⅞ July 1990	92.295	6.35	92.142	6.40
SCBT South Central				
10⅞ Jan 1993	106.375	9.496	106.25	9.522
Phibro-Sal				
8 April 1996	99.016	8.15	99.625	8.055
TRW				
8⅜ March 1996	103.625	8.178	103.50	8.197
Arco				
9⅞ March 2016	110.75	8.84	110.25	8.884
General Motors				
8⅜ April 2016	93	8.792	92.50	8.843
Citicorp				
9⅜ March 2016	101.25	9.248	100.50	9.322

Source: Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	100–13	100–16	100–02	100–05
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.365	94.40	94.35	94.41
Certificates of Deposit (IMM) $1m points of 100%				
Dec	—	—	—	94.00
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	93.92	93.94	93.90	93.93
20-year Notional Gilt £50,000 32nds of 100%				
Dec	109–12	109–11	109–08	109–10

* Latest available figures

SECTION III
FINANCIAL TIMES SURVEY

China

Deng Xiaoping's leadership has dampened last year's inflation and overheated economy. It has taken more steps towards a market-oriented system and political reform—some enterprises now sell bonds, and a trial bankruptcy law has come in. But the question of who will carry on the work after Deng still dominates.

Deng's reforms exorcise Mao


Mao: influence fading


Deng: dedicated reformer

WHEN THE history of post-Mao China comes to be written, 1986 could be seen as the year when Deng Xiaoping's leadership fought a decisive battle against its opponents. After last year surviving the worst economic crisis since it came to power, it has kept modernisation on the road, started new reforms and above all been seen to keep cool in the face of criticism.

In foreign affairs, it has brought the relationship with its neighbour the Soviet Union to the point where a healing of the 26-year-old split has begun to look possible. Though China responded cautiously to Mikhail Gorbachev's Vladivostok speech in July, trade and other contacts with the USSR are rising.

Today, Peking's foreign policy is to maintain good relations on the widest front so that modernisation at home can proceed undisturbed.

Deng's final and biggest problem, that of the succession, is yet to come. Even leaders of his choice (and he may not be able to choose) will have difficulty keeping the reform momentum going, because none of them have his commanding influence. And the reform itself may, like last year, generate difficulties which will reverse the programme.

Deng made himself vulnerable in 1985 by losing control of the economy. Last year's fall in grain output, inflation and corruption scandals provided ammunition to his conservative opponents for a campaign from which he and his colleagues have emerged bruised but unbowed. But he has now kept reform on the road for eight years. Every day longer that it and he survive gives a better chance for the long run.

The moves which caused the most trouble in 1985—more freedom for the factories and price reform—were temporarily shelved but Deng has kept the ball rolling with other innovations. Political reform resurfaced in mid-summer when a press debate on intellectual freedom switched suddenly to a discussion of slackening party control.

The points raised were later dismissed as only "scholars' views," and Deng told foreign visitors the issue would not emerge again till next year. But it is still being discussed by what many believe to be Deng's think-tank, the Academy of Social Sciences.

"We hope to make the political mechanism much more rational, with democracy and the rule of law as the moving spirit," Professor Zhao Fusan says.

"This will lead to the question, what will be the role of the party?" Professor Zhao indicated that defining it could mean establishing a "checks and balances" system, though he believed this would need years to take shape.

Even in the economy, new reforms like the sale of bonds and shares and the introduction of contract labour instead of lifelong employment have taken off. And the vigour of the private economy sector is impressive. The free market in Lanzhou, capital of Gansu province, for example, has become a trade centre for China.

Villagers from Lanzhou's suburbs flog their privately-purchased trucks hundreds of miles to Sichuan or Qinghai to buy oranges or fish. Traders from far-off provinces come with clothing or furniture, to sell on Lanzhou's streets. This is increasingly different from the original notion of a local farmer selling his own eggs or cabbage in the nearest city.

By Colina MacDougall

The private economy plays a key role in diminishing unemployment. China claims today it has few young people "waiting for jobs." This is not wholly true, but Peking has defused what was an explosive issue five years ago.

In spite of all this good news, Deng's problems are far from over. Even some younger men in his own leadership—Deputy Premier Li Peng, for instance—appear to favour a centrally planned, large-project-oriented Soviet approach more than Deng-type individualism. When the octogenarian leader goes, the try-it-and-see attitude which has brought China so much benefit might go too.

Even under Deng, the political reform may not get far off the ground. It seems inconceivable that any Communist Party should willingly give up power. The party "rectification" begun three years ago, intended to weed out the mobs who joined during the Cultural Revolution, has trickled away into an inoffensive "re-education" movement. And without political reform, which at the least would give managers and experts freedom to make decisions, economic reform will be a failure.

The much-touted legal system, though better than the vacuum which preceded it, does not provide justice as viewed in the west. The traditional notion that anyone in the hands of the law must be guilty lingers on, and there seems little chance at a trial of adequate defence. Torture by the police is widespread, according to senior law officials reported in the Chinese media.

Although the government has the economy under control, there are underlying problems which it has not solved. The key issue of how to give factory managers more power without sending the economy off the rails remains to be solved.

If in future the reform goes badly wrong—such as producing high inflation—there could be popular demand for a return to the old stable, if unproductive, centrally-planned system. This would be disastrous, since central planning has already shown itself incapable of meeting China's needs.

Deng is sitting on unpredictable social issues which could explode at any time. One is high-level corruption, less overt than in its 1985 heyday but still manifest even to outsiders in the way senior officials' relatives are promoted or given trips to the West. In spite of promises earlier this year to prosecute, little action has been taken.

Another issue is the divisive policy of investing where returns are greatest, in the relatively skilled and prosperous east. This is enhanced by the growing affluence of the city suburbs compared with the deep countryside or even the pockets of unemployed in the towns.

China officially admits to 60m living in dire poverty. It is a figure made easier to appreciate after watching a half-finished plate of dumplings snatched from the table in a restaurant in central Peking and wolfed down by hungry citizens.

Perhaps most important for the long term is better education. Many millions of Chinese are illiterate. Continued ignorance will threaten the economic reform and even the proposed small measure of political change.

But senior Chinese are still arguing over the costs. The last National People's Congress saw an unresolved debate on whether to spend billions on the Sanmen Gorge hydropower scheme or on improving schools, colleges and teaching.

Maybe Deng should use his last years in an effort to consolidate his reform by making sure that education gets the money it needs to turn out skilled and innovative people.

CONTENTS

This is the last of a series of FT China surveys published this year, and concentrates on regions and sectors not already covered. A combined reprint will be available in the New Year from: Michael Robinson, Publicity Dept, Financial Times, 10 Cannon Street, London EC4P 4BY. Price £5.

Politics

Contradictions threaten reforms

THE PROBLEMS caused by allowing open debate on policy have dawned on the Chinese leadership in recent months. Instead of ramming through much-needed reforms the so-called pragmatists, the supporters of paramount leader Deng Xiaoping, have allowed less enthusiastic reformers to fiddle with and delay legislation.

And it has surely dawned on the pragmatists that they stumbled in their attempt to strengthen China's faltering ideology in the autumn by passing a "Resolution on Guiding Principles for Building a Socialist Society with Advanced Ideology and Culture." That vague document has left most Chinese as philosophically undernourished as they were before they picked it up.

The past year has shown that the greatest threats to an ongoing and creative reform policy lie not in a group of plotting closet Maoists but in contradictions created by the reforms, and by the increasing alienation of large sectors of Chinese society.

A quota of senior party members believe the reforms have gone too far soo soon, and they will make the most of any opportunity to stall the pragmatic push. But this group does not have the numbers: a more powerful force is distillusionment at the grass roots.

In the provinces many supposedly senior party officials do not really understand why some reforms like bankruptcy laws and sales of public property to individuals are necessary. They are abiding by party policy not because they agree it is a good idea but because it is policy.

That is a distinct change from the days when agricultural reforms freed private plots and markets, and the positive results could be seen on every Chinese street — more vegetables and a wealthier peasantry. The masses, told to "seek truth from facts," had few doubts that reform was right.

"They have done all the big things, and now they are introducing more complex items like bankruptcy," a West European diplomat said. "They do not have the same glamour and it is more difficult to convince people that they are necessary.

The danger is that reform will be stalled by ideological arguments over some of the small items. A new class of political opposition may be mobilised, comprising officials who have been pro-reform but who are alienated by the more confusing changes and who want to fill the ideology gap.

The approach is to test an economic device, say limited sales of shares, and if it is useful, lay an ideological foundation beneath it, then promulgate the appropriate legislation. It is hardly a doctrinaire approach, and yet many party members are doctrinaire and having to suspend belief must be uncomfortable.

The timing of Deng Xiaoping's departure remains an unanswered question

Politics and Foreign Policy

China, as October's compromise party resolution revealed is still divided between reformers and hard-line conservatives, even though the old demarcation lines between groups of leaders may be fading. Abroad, Peking moved towards a thaw in its dealings with the Soviet bloc and relations with Japan grew smoother.

"The present policies do not have a clear theoretical basis and the party knows it," one diplomat said. "There are no guides and they realise that this will be a much greater problem when Deng goes. They will not have an established body of thought to fall back on."

Deng Xiaoping's departure date remains the great unanswered question in Chinese politics. He said this year that he would like to retire, but his comrades are encouraging him to stay on. That means he is likely to stay beyond the party congress scheduled for next autumn, an event that had been seen as a prime opportunity for retirement.

Chen Muhua, a well-connected state councillor, explained that the party is replacing the life tenure system with a retirement plan. "But there is a lot of work still to be done," she said. "It is necessary to have some older leaders who have rich experience."

She suggested that Mr Deng will "do what other people want," which indicates he will stay on.

The congress will still be crucial in the institutionalising of a succession scheme, and pressure will be put on the likes of Chen Yun, the senior politburo member with his own reform blueprint, to make way for younger members. President Li Xiannian is a hot tip to retire, perhaps to be replaced by Vice-Premier Wan Li.

Madam Chen was as vague as the official party pronouncements on what the much-discussed programme of political reform will entail. There have been hints that the party's power will be redefined, and that it and the Government will be separated. But the focus has been on the more modest goal of sorting out the long-standing problem of defining the conflicting roles of manager and party secretary in factories.

As a diplomat pointed out: "The party has not done much about reform apart from talk about it." But in any redistribution of power some people will have more and some will have less, and it looks like provincial party officials will have to be content with less. Some will be content while others will be inclined to prove how the arrangement under which they had more say was the better system.

Factory managers are being presented by the Chinese media as "good guys sometimes shot off their horses" by often unidentifed critics. Cases of false accusations against successful managers have been highlighted with the moral that these reformers are the heroes who deserve support.

However, what if a party official genuinely believes that the manager is a hack, but is reluctant to push the matter for fear of tripping over the party line? And what if the recent batch of senior appointments in the provinces produces bad eggs?

The governor of Jiangxi province was replaced several months ago amid allegations of corruption and abuse of power. If a few more of his sort fall, the wisdom of the present leadership is open to question.

The toughest questioning will come if the economic successes have allowed the leadership to take profound liberties with ideology. The Government should be pleased that the economy has grown on target, and that the trade deficit will be cut.

But at the grass roots there are murmurings of discontent over price rises and over how those who have been allowed to "get rich first" are getting richer and further ahead of the pack. Lower party officials are feeling the pinch and are not blessed with the grand vision of Peking's powerbrokers.

Robert Thomson

President Li Xiannin (left) is tipped to retire, perhaps succeeded by Vice-premier Wan Li (centre). Senior politburo member Chen Yun will also be pressed to step down.

Tough and uncompromising climb

Profile

Chen Muhua

MADAME Chen Muhua, state counsellor, member of the Politburo and Governor of the People's Bank of China, is arguably the most powerful woman in China.

She agreed to meet in one of the splendidly restored ancient buildings within the leaders' compound, Zhongnanhai, inside the Forbidden City of Peking.

Accompanied by 25 officials, Mme Chen looked slightly incongruous—albeit supremely confident and relaxed—in the former Imperial residence. She sat in a large chair inside an ornate canopy curtained in red velvet and decorated in gold and red, with three spectacular antique vases behind her.

She was dressed in a plain grey trouser suit, her long Chinese underwear peeping out at the ankles, and sensible flat black shoes. Her short unstyled hair was swept off her grandmotherly face and held back with hairpins. She looked not unlike a Chinese Golda Meir—a blend of severity and kindliness.

Mme Chen laughed a lot throughout the interview, and she asked as many questions as she answered.

To reach the Chinese political heights achieved by Mme Chen needs a tough and uncompromising determination sustained over decades. The Chinese remain reluctant to indulge in biographical detail and her own account of her career managed skilfully to skip the odd decade here and there.

There is no doubt that she has had the right friends in the right places at the right time. She worked for Li Xiannian, now President, when he was Minister of Finance in the 1950s and rose with him.

Madam Chen Muhua, perhaps the most powerful woman in China

Mme Chen joined the army during the war with Japan, having previously worked for the army as a civilian. About the 15 years after the war, from 1945 to 1960, she will say only that she worked for the state planning commission and liaison office of the Commission for Economic Relations with Foreign Countries. During the 1960s and 1970s she travelled widely, especially in Africa.

Mme Chen says: "I was criticised, of course, during the Cultural Revolution." But her career appears to have progressed well during that troubled period even though she refuses to give any details about it. In 1970 the Commission for Economic Relations with Foreign Countries was re-organised into a Ministry and Mme Chen was appointed Vice-Minister.

In 1972 she was deputy head of a Government delegation to Zambia and a year later was elected to her first term as a member of the CCP Central Committee. In 1975 her stock was still high enough for her to have retained all her positions and to lead the Chinese delegation to a United Nations industrial development organisation conference in Lima, Peru.

In 1977 she became Minister of Economic Relations with Foreign Countries and was elected an alternate member of the Chinese Politburo.

Under the post-Mao leadership she continued to prosper, being appointed a Vice Premier in March 1978 and joining a delegation to North Korea led by Hua Guofeng in May. on their return she was appointed director of the Birth Planning Leading Group under the State Council.

Mme Chen retained her influence and status when Deng Xiaoping became paramount leader and last year she was promoted from Minister of Foreign Economic Relations and Trade to Governor of the People's Bank of China.

Whatever her views which enabled her to survive the Cultural Revolution, she now says she is committed to the economic reforms of Deng.

"In the past everything was controlled by the Planning Commission. This did not work," she said, referring to the department in which she used to be an official.

"Because China is so large and development is so uneven we must make a gradual transfer from direct to indirect control. The reforms must be taken step by step."

She added that economic reforms could not work without the political reforms necessary to separate the party function from the government function. "How do you do it? We haven't got the answers but I hope by this time next year the blueprint will be worked out," she said.

This was a further official indication that political reform is proving troublesome and has gone on to a "next year, sometime, never" timeframe.

To achieve the target of per capita gross national product of between $800 and $1,000 by the year 2000, Mme Chen conceded that there would inevitably be some disparities. "Our goal is for the whole country to be rich but some people will be rich first," she said.

What about the succession after Deng, who is now 82 and has indicated that he would like to retire? "Many people do not accept his wish to retire.

"Even some foreign friends do not accept it. This morning some Americans (from the New York Stock Exchange) urged him to stay on. Many people, including me, want him to stay," Mme Chen, said with a laugh.

Robin Pauley

USSR relations

Concessions to heal breach

RELATIONS BETWEEN China and the Soviet Union are closer today than at any time since the solidarity between the world's two leading Communist powers shattered in the early 1960s. After more than two decades of deep hostility that at one stage threatened to erupt into open war, opinion is divided over whether Sino-Soviet rivalry is at an end.

What is clear is that in the last 18 months there has been a flurry of top-level meetings between senior officials from Moscow and Peking, trade has soared and both sides have made concessions seemingly aimed at speeding up the rapprochement.

A series of important developments have come surprisingly fast:

- In July 1985, a five-year trade agreement aimed at boosting trade from about US$1.3bn in 1984 to $10bn by 1990 was signed.
- Also in July, China announced it was to reduce the number of its troops by 1m, a large number of whom seem certain to be withdrawn from the border.
- In July this year in a keynote speech in Vladivostok, Mr Mikhail Gorbachev, the Soviet leader, announced that six regiments would be pulled out of Afghanistan, suggested the possibility of a substantial troop withdrawal from Mongolia and made a clear concession over the disputed border area along the Amur River, by offering to agree to a demarcation line running along the middle of the channel. The area saw violent skirmishes between the two sides in 1969.
- In September, Mr Nikolai Talyzin, the Soviet First Deputy Prime Minister, became the highest ranking Soviet official to visit Peking in more than 17 years. The result was a decision to resume next February, after a nine-year break, talks aimed at settling the border dispute.
- In September and October, General Wojciech Jaruzelski, and Mr Erich Honecker, of Poland and East Germany, were the first leaders of countries with close links to the Soviet Union to visit Peking since the Sino-Soviet split. Such a development could not have taken place without Moscow's blessing. In addition, Peking subsequently claimed that party-to-party relations with these countries had never been broken.
- Last month the Soviet Union and China held a further round of normalisation talks at which for the first time Moscow said it was willing to discuss the thorny Soviet pullout from Afghanistan.

Soviet leader Mikhail Gorbachev has made concessions which could ease relations with China.

Peking, they claim, is well aware that Moscow is either unwilling or unable to meet all these demands. Vietnam, for example, is a fiercely independent nation over which Moscow has only limited influence.

Afghanistan is of vital strategic interest to Moscow and a Soviet pullout seems unthinkable unless the civil war can be brought to an end and a strong regime, friendly to the Soviet Union, put in place.

Above all, the announcement of a formal resumption of party-to-party links is essential before it might be safely claimed that the world's two Communist giants have resumed normal relations, and this seems a long way off.

Peking has been careful to offset its improvement in relations with the Soviet bloc. For example, last month's resumption of formal links with the two iron curtain countries was quickly followed by the decision for the first time since 1949 to allow an American warship to visit mainland China.

US officials are now well aware that the honeymoon period when it was possible to argue that China was effectively Nato's 16th member is long gone. In future the triangular balance of power between the US, the Soviet Union and China is likely to prove both more complex and uncertain.

problem of the Vietnamese occupation of Kampuchea. China also suggested, publicly for the first time, that movement on this issue alone might unlock the door to normalisation.

Some, however, take a more bullish view. Normalisation has already taken place in all but name, they argue.

Ideology is no longer a problem. Deng Xiaoping, China's leader, and Mr Gorbachev are essentially pragmatic men.

Moscow and Peking have also talked of the possibility of a summit between the countries' two top leaders. Such a meeting seems unikely in the immediate future, but the fact that it has been mentioned publically, albeit hedged with qualifications, is seen as a clear sign of the sharp improvement in relations between nations which together deploy a total of almost 2m troops along their 4,000-mile border.

Some senior diplomats and academics, however, urge caution in interpreting the recent flurry of activity. Continuing deep-seated mutual suspicion could prove for many years a serious stumbling block to a full normalisation of relations.

They point to public statements by Peking that relations cannot be restored until a breakthrough on the so-called Three Obstacles: a reduction of Soviet troops along the border, withdrawal of Vietnamese troops from Kampuchea and a

Richard Cowper

Japan Prime Minister Nakasone with party leader Hu Yaobang on a goodwill visit to China this year.

Foreign policy

Disputes bubble beneath calm

BENEATH THE calm exterior of China's increasingly successful efforts to establish normal relations with as many countries as possible bubbles a cauldron which continues to frustrate progress on long-standing disputes.

China wants normal relations with every state so as to concentrate fully on its internal modernisation and economic reforms. This has now produced steps towards normalising relations between Peking and Moscow: both Deng Xiaoping in Peking and Mikhail Gorbachev in Moscow desperately need external stability while they engineer tricky and sensitive internal changes.

The problems beneath this peaceful surface are severe: the troops massed along both sides of the disputed Sino-Soviet border; the Russian military presence in Afghanistan; and the occupation of Kampuchea by Vietnam, backed by the Soviet Union. Yet the Soviet and Chinese vice foreign ministers met in Peking this autumn and discussed all these problems in an apparently friendly and optimistic way.

There is still far to go but the slow warming of relations has obvious advantages for both. The Russians want a new powerful ally; the Chinese want to keep their relations in balance and avoid becoming too closely tied to the US. Both want stability while they introduce sensitive and complex internal reforms. Both need major developing markets in which to expand their trade.

For the West, however, the implications, potentially at any rate, are serious. While Deng and Gorbachev talk of international peace it is not clear that future leaders on either side will take the same line, creating the possibility of further unpredictability in the region. Nor is it clear whether resolution of the Sino-Soviet border dispute would lead to the transfer of 500,000 Soviet troops from the east facing China to the east bloc's frontiers with Western Europe.

The latest moves also suggest that after more than a decade of improving relations China and the US may have gone just about as far as they can for the time being. The Chinese have become critical about aspects of US policy—central America and protectionist trade policies in particular—and the US has become more anxious that the Chinese should not find fault with the particular but develop the general in foreign relations.

Relations with the US remain vital, nevertheless, to China, and it is important not to overstate the extent of progress with Moscow, hopeful though this year's contacts appear. In particular, Peking will not contemplate party to party relations with Moscow until "strenuous efforts" have been made by the Russians to resolve the Kampuchean situation.

So far Vietnam has merely indicated its willingness to leave Kampuchea by 1990, provided a neutral government can be installed excluding the Khmer Rouge.

"Deng Xiaoping would be happy to go to the USSR to meet Mr Gorbachev at any time once that problem is resolved. But it is three months since Deng publicly offered such a move, on condition Russia urged Vietnam to stop destroying Kampuchea and withdraw its troops. You have heard the silence and we see no substantial change," said Qi Huaiyuan, assistant foreign minister.

Afghanistan is another major issue dividing the two countries though the atmosphere here has been improved by Russia's token troop withdrawals.

In spite of these major hurdles the general improvement in Sino-Soviet relations has led this year to improvements in relations between Peking and the Soviet umbrella states. A treaty has been signed between China and Mongolia. Equally significant, relations are being restored with Eastern Europe, broken since the start of Sino-Soviet dispute in 1960.

The semi-official visit this autumn by Gen. Jaruzelski of Poland followed by a full state visit by Mr Erich Honecker, East German party leader to Peking, paves the way for the restoration of party to party links throughout the East bloc, with the approval of Mr Gorbachev. Only Yugoslavia, Romania and, for part of the time, Albania have maintained party to party links with Peking during the long dispute with Russia.

It would be surprising if during 1987 there were not a constant trickle of leading East European party leaders to Peking in the wake of Mr Honecker, with the Hungarians likely to be first, followed by the Czechs and the aggressively pro-Soviet Bulgarians bringing up the rear. Once these relations are normalised Peking is expected to move towards establishing formal links with the Cuban Communist Party.

The key to all of China's feelers for the restoration of relations is to maximise the possibilities for bilateral trade relations and attract foreign investment and open foreign markets as an essential constituent of its economic reforms.

"We also want friendship throughout Asia. There is no question on the Chinese side, for example, that we would like to establish and develop normal relations with Indonesia which have been in difficulty since 1965. We have given signals time and time again but without success. If the time is not ripe we can wait," said Mr Qi.

This sort of quiet pragmatism is best exemplified in the approach to Taiwan and Hong Kong. Having secured an agreement over the future of Hong Kong on the basis of "one country, two systems" China is now aggressively promoting a similar line over future relations with Taiwan—so far with no success.

Taiwan is in many ways more important to the Chinese psyche than Hong Kong and some form of rapprochement remains a top priority for the Peking regime. Hong Kong and Taiwan have attained a new poignancy since economic reforms were introduced because both are so obviously more entrepreneurial, rich and economically dynamic and successful than China ever has been since 1949.

Peking would rather have some form of agreement which integrates them internally than have them sit outside as examples of what non-Communist Chinese enclaves can achieve. Having negotiated an agreement over Hong Kong, the Chinese are likely to exert increased pressure for a Taiwan deal in coming years. "Taiwan is only a province of China," noted Mr Qi tersely.

"The Chinese have discovered that they need the outside world more than the world needs them. The encouraging thing is that they are no longer afraid to admit it and are going all out for normal and friendly relations wherever they can find them. Their aim of furthering global peace through non-aligned independence and friendship might sound trite but it has a lot going for it," observed a Western diplomat.

Robin Pauley
Asia Editor

Mongolia border

Friendship back on rails

ERLIAN IS the place where they change the railway carriage wheels on the 4,350-mile line from Moscow to Peking. The train is shunted into a long shed where China's 4ft 8½in track is embraced by the 3½in wider gauge of Russia and the Mongolian People's Republic. The carriages are jacked up while an overhead crane swings the ice-covered wheels off the outer rails and drops waiting sets onto the inner.

The line through Erlian (Erenhot in Mongolian) is one of the few links between the two Mongolias, regions of a common ethnic history but divided politically for more than 30 years. The independent republic of Mongolia to the north, formerly in Peking's sphere of influence, has become a Soviet buffer state since the Sino-Soviet split of the early 1960s. An indigenous population of 1.9m is aided by thousands of Soviet teachers, engineers and other civilians, and is said to be defended by five Red Army divisions.

The autonomous region of Inner Mongolia to the south, where Han Chinese today outnumber native Mongols by nearly 10 to one, is in reality just another province of China.

The break in the railway line built 30 years ago across the immense plateau of grasslands may be losing its symbolism. Overtures from Peking to Ulan Bator resulted in an agreement to establish consular relations this year. A Chinese deputy foreign minister was received in the Mongolian capital and troupes of singers and dancers have been sent across the border.

Erlian itself, an artificial settlement of 10,000 people from all over China, has made contact with the small Mongolian town of Za Meng Wu De three miles away in the past couple of years. Hu Yaobang, general secretary of the Chinese Communist Party, visited the town in September 1984, and urged local leaders to invite an official delegation over.

"He told us Chinese and Mongolians had been friends for a long time," said Lu Ziheng, Erlian's deputy mayor. The two towns now exchange official visits on their respective national festival days.

The railway channels Erlian's local produce of sheep and goatskins, leather clothing and a small amount of chemical and mineral raw materials to the USSR and Eastern Europe. Timber, steel and vehicles come the other way. But trade remains meagre.

"We want trade between the two towns, but we have had no answer to a proposal we made in 1984," said Liu Xingming, of the local foreign affairs bureau.

"The Mongolians said they wanted to ask their leaders, but the policy there is different. Ours is to open to the outside world, theirs is not to open. But relations are getting much better."

The two countries fixed their 2,850 mile border only in 1962. The following year marker posts were established and four years ago the two sides reviewed the line, adding further posts. According to local officials on the Chinese side there are no fences.

If animals wander across, or local herdsmen overstep the line, the procedure is for the border guards to fire shells in the air to attract the other's attention. The same method is used to convene a meeting. There have been no major incidents, officials says.

Erlian was opened to foreigners last year, but neither foreigners nor Chinese civilians may approach within 2 miles of the border. There is no garrison in Erlian, and civil leaders are vague both about the whereabouts and numbers of Chinese troops.

"We never see any Russian soldiers on their side," one said.

Five hours' rail journey across the steppe from Jining, the nearest (and closed) Chinese city, Erlian is truly on the road to nowhere. A broad modern avenue leads from the impressive railway station to a small park, the offices of the local "banner," or county, and out into a brown and treeless desert of scrubby grass, dotted with sheep, ponies and camels.

Either side of the main street are regular blocks of one-storey brick houses, each with its own front yard. Chimneys puff grey smoke from coal fires, and the TV aerials wait to catch the programmes from Peking and Huhehot, capital of Inner Mongolia—after seven pm on working days, but both morning and afternoon on Sundays.

As well as the railway, there are a few small factories where the immigrant Chinese find employment. Apart from its extreme climate—the temperature can drop to minus 40C in winter—Erlian could be any small town in China. That, and the fact that dwellings and inhabitants alike face south, from where the Mongol herdsmen and their families ride into town to do their shopping and pay a visit to the cinema.

Lu Ziheng, one of five deputy mayors, talks glowingly of the town moving into a "golden age" under the influence of China's economic reforms. "People are working very hard to make this a rich and powerful city, following the instructions of the leaders of Inner Mongolia. People call this the continental bridge."

His optimism may not be misplaced. Oil was discovered in the area six years ago, and reserves of a reported 7bn barrels are about to be exploited, which could involve an oil refinery for Erlian and foreign participation. Meanwhile, the gradual thawing of relations between China and the USSR and its satellite Outer Mongolia could one day make the city more than just a strategic dot on the map where transcontinental passengers wait a couple of hours while the wheels are changed.

Christian Tyler

Lu Ziheng, a deputy mayor of Erliam,

Food stall at a market in Mongolia

Reincarnation on a bike

Profile

Living Buddha

Jimishirang Jiangtsuo, called the Living Buddha

"THE Living Buddha should be here any minute," said the girl in the porter's lodge of the temple. "Ah, here he comes now," she added as a burly figure in a flat cap, jacket and trousers whizzed through the gate on a bicycle.

The Living Buddha parked his bicycle, picked up his briefcase, shook hands energetically, and showed us to his quarters on one side of the temple courtyard. A small anteroom contained three chairs and a trunk. We went through to the main room, no more than 10 ft by 6 ft, in which there was an iron bed, a desk, two chairs and a pot-bellied coal stove.

"Actually, Living Buddha is a wrong translation," he said after he had poured the tea. "It should be 'reincarnation of the Buddha'".

Jimishirang Jiangtsuo, to give him his full Tibetan name, was two years old when he was identified as a reincarnation from among 400 children in the western Chinese province of Qinghai where he was born.

He is the 11th reincarnation to be attached to the lamaist temple of Xilitu, built during the late Ming Dynasty in the old quarter of Huhehot, capital of Inner Mongolia. The temple was ransacked by Red Guards during the Cultural Revolution and most of its precious books and devotional objects destroyed. Now it is being restored by the regional government, with help from the state.

Today, a party of school children, clutching note-books and Biros, was being shown round. Some of the boys, when they reached the statue of the Buddha himself, prostrated themselves in mock worship: the expression on the face of the head lama did not change.

There are two rangs of Living Buddha, Jiangtsuo explained: an Inner Circle of Eight, of which there is only one in Inner Mongolia, and an Outer Circle of Twelve, actually numbering 20, including himself. He is a member of the Yellow Branch, the largest lamaist sect. (There are also white, red, black and "coloured" branches.) He recognises the Dalai Lama, who fled to northern India when the Chinese overran Tibet, as morally the head of the branch.

"But not in practice, because he is abroad. He has done nothing for the disciples of his country."

Does being a Living Buddha make him feel different from the rest of humanity?

"No," said Jiangtsuo. "I only feel the responsibility to learn as much as I can, to be knowledgeable, straight, open and honest. Those people who are aggressive or hard could not be Living Buddhas."

He is a doctor of Tibetan herbal medicine, and visits the local hospital twice a week. As a scholar, he speaks and writes Mongol and Chinese as well as his native language and has compiled dictionaries for university students.

Much of his time is spent in administration: he is an executive member of the Buddhist Association of China, secretary of the regional branch and chairman of the local one. These bodies are all under the general control of a newly-tolerant Communist Party; but, he said, the religious leaders themselves are not communists.

At the age of six, Jiangtsuo started his education in philosophy, medicine and religion at the temple of Tar in Qinghai. In 1956 he came to Huhehot to finish his education in a state school. Five years after graduation, the Cultural Revolution struck: he was sent away for hard labour at the May 7 Cadre School in a town about 200 miles west of Huhehot.

"At first I was criticised for being a Buddhist. They said Buddhism was an evil influence. But after 1969 I was called a traitor to the country and enemy of the party. All this went on until 1972, when I was rehabilitated."

The Living Buddha is married, with two sons. "According to our doctrine, a Living Buddha may marry, but its better if he doesn't. A lama must stay celibate.

"I am not a Communist Party member, and have no wish to join any kind of party. I have two wishes. One is to be a citizen of this country and to love our country. The other is never to give up my Buddhist belief."

Most of those who worship at Xilitu temple are Mongol herdsmen who come in from the country. But the lamas say religious belief is on the increase again. The Buddhist bible prophesied a slump in worship, followed by a revival. That, says the head lama at Xilitu, was surely a prediction of the Cultural Revolution.

The Living Buddha says there are no statistics on the number of disciples. "Other religions—the Moslems, the Christians, the Catholics, make demands of their disciples, but Buddhism makes none. You can believe today and give up tomorrow."

Christian Tyler

Economy

Cracks behind the gloss

EVIDENCE OF the personal impact of China's economic reforms is vital in trying to fill in the picture behind the official gloss.

"I do not care what anybody says, prices have risen much faster than income this year and last year," says a young civil servant in Hunan Province. For people living in the cities and not in production jobs which enable them to supplement their income through bonuses and selling on the free market, this means life is getting harder.

"I feel it every time I want to buy something for my baby or when I want to buy a wider variety of vegetables."

She is anxious not to be identified but equally anxious to make plain that the official claims of income rising to balance price rises is not correct.

It is a contrast with an official picture which at its worst reduces senior officials such as Mr Wang Chunzheng, director of the Comprehensive Economic Planning Department of the State Planning Commission, to saying "We do not have any inflation, we just have price rises."

These price rises are the key to China's economic reforms, which are trying to stimulate growth and enterprise by allowing market forces to play an increasingly important role in directing the pace and content of economic expansion. This means the gradual removal of some of the plethora of subsidies which have hardened the Chinese economy to the point of inefficient stagnation over the years.

At the same time, central political control remains of paramount importance and it is vital to the central leadership that the reforms occur in such a way as not to be socially divisive. Political unrest is the last thing Deng Xiaoping wants—both because of its threat to social stability and because of the powerful lever it would give to the opponents and critics of the new pseudo-capitalist route along which China is picking its way.

So the disturbances in October in some cities, for example, when citizens took to the streets to protest about 50 per cent price rises for some consumer durables, electricity and food, were quickly seen as an alarm bell. The price increases were hastily softened. Official pronouncements about the extent to which ordinary people's purses will be protected were made from the highest levels in Peking and economic development slowed even further.

The state is clearly intervening in the market to keep prices low, particularly for grain and meat. In a country with minimal higher education and at least 200m illiterates, keeping prices reasonably stable has proved more politic than trying to explain why they should rise.

China is in the second phase of its rejection of centrally-planned Marxist economic structures, and its attempt to develop a freer economic model within a centralised communist political system.

The first phase was to put responsibility for production and quality on the shoulders of individual managers and introduce some market forces to wages and prices in the agricultural and industrial sectors. It involved accepting publicity that some people would become richer faster than others

The end of the first phase occurred in 1985. The result of rising wages in many sectors and more independent management had been too rapid an increase in growth. A head of steam built up behind insatiable demand for consumer goods; it was released through the imports valve, which has knocked so many other countries' economic strategies off the rails.

Inflation, which strikes terror into the Chinese leadership, as it led to the downfall of previous governments, started to soar. Although the Chinese are not comfortable with the statistical methods of assessing inflation—it has been estimated at anywhere from 8¼ per cent to 23 per cent for 1985—everyone knew it was too high.

The scale of overheating in 1985 is important. The industrial sector grew 23.1 per cent with investment running 44 per cent over target. Global trade grew by 40 per cent—imports rising by 58 per cent against a 1.5 per cent rise in exports. The trade deficit widened to $14bn according to the State Statistical Bureau (although the Ministry of Foreign Economic relations and Trade showed half that), and the dramatic outflow of foreign currency reduced foreign exchange reserves to $10bn.

The second phase of the new economic development started in 1986 and shows signs of going well. The overheated economy has been slowed, the yuan was devalued by 15.8 per cent against major currencies in July to help exports, and in the first nine months of 1986 China's export volume rose by 14.8 per cent over the same period in 1985 to 21.4bn yuan. Import volumes rose only 5.1 per cent to 30.3bn yuan so the trend appears to be pulling in the right direction.

The yuan is still widely regarded as overvalued, however, and a further devaluation in 1987 is expected.

During the third quarter, when there was a slight relaxation of policy, imports started to surge again. Exports also jumped 14 per cent. "That is a terrific performance when you consider that times are hard with the world trade growing only slowly and the oil price falling," one western diplomat said.

The Five-Year Plan to 1990, published earlier this year, underlines the extent to which the lessons from last year have been learned and that the future should see slow but steady growth.

"In the first two years, efforts in economic construction will be focused on reducing excessive investment in fixed assets and checking the precipitous rise in consumption funds, so as to strike a basic balance between total supply and demand . . ." it says.

"In the final three years, these tasks having been accomplished, we will push forward economic structural reform and step up production and construction to fulfil all the other tasks set by the plan."

Industrial output is planned to grow by around 7½ per cent a year during the five-year period, the same growth rate forecast for GNP, which should reach 117bn yuan by 1990. Consumption is planned to rise by an average of about only 5 per cent a year.

This year seems to be ending with these targets more or less on course. In the first nine months of 1986 the key indicator, industrial production, appeared to have grown by only 8.5 per cent and growth in capital construction investment had been slowed to 9.5 per cent.

With the domestic economy under more stable control China has moved further towards establishing a more sophisticated economic infrastructure. The People's Bank of China has started to operate more like a central bank, controlling monetary policy and setting credit restrictions for the developing independent banks when money supply appears to be growing too rapidly.

Cheque books are available from some banks. A capital market is slowly starting to develop with the gradual return of shares, bonds and equities and a rudimentary form of the old Shanghai stock exchange has reopened.

However, the nation's leaders are still wrestling with their own definitions of ownership, and their inability to resolve this key issue continues to delay the introduction of the bankruptcy law. Based on the discussion so far, bankruptcy is a misnomer in the Western sense of the word as the means of production remains in social ownership. If this remains, bankruptcy will mean no more than enforced closure.

The Chinese remain cautious about levering up their foreign debt, although they have been active this year in the Japanese and West German international market.

"Some bond issues are good; others are not," said Mr Tong Zengyin, deputy governor of the central bank.

"For historic reasons we do not raise money in the UK or US but we would like to in the future. We have raised about 20bn yuan overseas in the last six years. But the problem with foreign borrowing is it has to be repaid so we must only venture in as far as we can be sure to be able to meet all repayments."

In spite of the slowdown, the creation of a tertiary sector in the Chinese economy through non-state enterprise remains the touchstone to the strutural reforms. This free and flexible sector remains the most dynamic in the Chinese economy.

It accounted for 25 per cent of industrial output in 1986 and took about half of all new entrants to the labour force this year, compared with only a fifth in the early 1980s. This is a critical statistic because between 230m and 250m people will enter the Chinese labour force during the next 15 years, more than the total population of the US.

Given the problems and constraints, the leadership under Deng appears to have restrained the economy without letting the basic free market reforms go. It has defused the controversy over price rises for the time being and has the new evolving economic strategy back on the rails.

A Western diplomat in China summed up the state of the economy: "They have bigger problems than anyone else in the world. They have made mistakes and the going will get tougher.

"But look at the world. Trade is slow, protectionism is growing. This is not a happy time for the Chinese to be trying to catch up and join in the world market while pulling up the domestic population of more than 1bn.

"The scale of the difficulty defies imagination. If you accept that you must accept that they are trying to do the right things and, against the odds, they are doing fine so far."

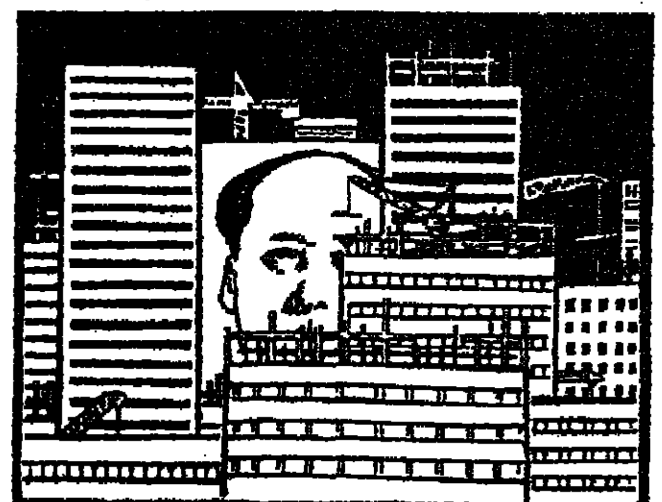
Robin Pauley,
Asia Editor

Target Growth: 7th Five-Year Plan

	1990	Growth 1985-90	Average annual growth	Average annual growth (6th plan)
	Bn yaun		%	
Aggregate industrial and agricultural output*	1,670	38.2	6.7	11
Agricultural output	353	21.6	4.0**	8.1
Industrial output	661	—	7.5†	—
Heavy industry	663	—	7.5	—
Gross national product††	1,117	43.6	7.5	10

* 1980 real prices; ** 6% including units below village level; † 7% including units below village level; †† 1985 prices.

Source: Renmin Ribao



Reforms Since Mao

Increasing private enterprise and economic freedoms, introduced over the ten years since Mao Zedong's death in 1976, have brought better food and even moderate prosperity. But rising inflation and envy over income differentials constitute a time-bomb which may one day demolish some of the gains.

Birthplace of a revolution

Profile
Shaoshan

THE LITTLE old lady selling welcome cups of piping hot tea at 10 fen (2p) each is doing very nicely, and her profits rise each year as more tourists pass her stall.

But this little example of private enterprise is taking place in Shaoshan, the small town in Hunan Province where Mao Zedong was born and raised before leaving for the provincial capital of Changsha at the age of 19 where he first learned about politics.

Goodness knows what Mao would have made of his birthplace today. Ten years after his death, Shaoshan is a bustling township of 15,000 people, mainly engaged in agriculture and small industry. During the course of each year the population is swelled by more than 500,000 Chinese and 1,000 foreign visitors who make the pilgrimage to Mao's home.

An overwhelming sense of history pervades the area around the large home of his well-to-do parents, furnished with many of the original articles from Mao's youth. The village pond in which his legendary enthusiasm for swimming was born, is still there. The fact that this is where the seeds of one of the 20th century's great political movements were sown gives a powerful charge to what would otherwise be a collection of rather ordinary museum buildings.

The local population appears to have managed to abandon most of Mao's ideological baggage without losing any of the sense of the momentous part the village played in history. Nor any pride in the fact that one of their country's greatest leaders had his origins in their village.

Like most Chinese, the Shaoshan people are determined that Mao should not be discredited in the way that Khruschev turned on Stalin. The traditional method of deflecting criticism from Mao by castigating the Gang of Four is nowhere more vehement than in Shaoshan.

Yet under Mao's rule, life remained cruelly hard in Shaoshan. Although its relationship to the great leader undoubtedly saved local inhabitants from the worst excesses of the Cultural Revolution, household incomes remained low, with virtually no possibility to earn more. Individual creativity and initiative were stifled.

"We like it much better now," said Mr Yang Shengen, deputy director of the township, whose only remaining attachment to Mao appeared to be his Mao jacket.

"At one time, we all ate out of the same so-called big pot and it did not matter whether your work was good or bad. We were paid with work coupons which could only be cashed in at the end of the year. Now we get cash every month and incomes are rising very fast.

His views were confirmed at the Shaoshan plastic factory, where the shabby reception room is dominated by a larger-than-life plastic statue of Mao.

The factory's 237 workers turn out plastic household utensils and industrial plastics—plates, buckets, parts for radios, electric fans and clocks. They use low-grade equipment and large amounts of manual labour in uncomfortable conditions.

"The average basic income here is 80 yuan a month (£16) which is close to the national average. But the more you work the more you get, and with bonuses and overtime the maximum possible extra earnings are 130 yuan a month," said Mr Li Dewei, who manages the operation.

"In addition, many of the workers own their own homes and grow agricultural produce which they sell on the local free market for extra income. We are all getting much better off very fast, and we like it."

Yet this is not as perfect a picture of progress as it looks. The value of total output in 1985 was 2.4m yuan. In spite of increased productivity during 1986 output to October was only 1.46m yuan.

Birthplace of Mao or not, Shaoshan has to cope with China's endemic industrial problems like everyone else.

"We had to close for two months this year because we could not get hold of any raw materials. Demand all over China was higher than supply of raw materials and when that happens we just have to close up, work the fields or do something else and sell produce on the free market." Li said.

This is not a problem that arose during the Cultural Revolution years under Mao's leadership because competition for such raw materials was virtually non-existent due to low output and low demand.

"During that time the sole function of our factory was to produce millions of Mao badges," Li said. At the end of the cultural revolution the factory's role was changed overnight and distribution of the badges stopped instantly. Those not already distributed were not destroyed but put into store.

"We cannot let you have one because they are stored in an inaccessible bit of the factory." Might they be needed again one day? "I do not think so. We have gone too far forward to go back," said Li.

But what would Mao think about all this working for profit and bonuses to buy colour TV sets and become more prosperous than the neighbours in his home village?

"Mao might eventually have approved," Li said. "We still follow Mao Zedong thought. But it was Mao himself who said that 'only practice proves the truth' and if he could see what has happened here through practice, I think he would believe in it and support us."

We bought another cup of tea for 10 fen from the beaming old lady, as well as an ageing woven picture of an ageing Mao for the same price. "The tea sells better than the pictures," whispered a bystander.

Robin Pauley

Management

Slow progress in changing practices

MANAGEMENT IS a new concept to the Chinese. Bearing in *mind the country's turbulent* history this century and its Communist rulers this is hardly a surprise.

Before the late 1970s and the introduction of the Open Door policy there were no laws to provide for foreigners to do business in China. Indeed, the Cultural Revolution was a period of such turmoil that the law was all but suspended.

Many of the deficiencies and characteristics of the Chinese management style in 1986 can be traced back to Mao Zedong, who refused to compromise national unity and loyalty.

Such attitudes had obvious repercussions in the industrial enterprises. Industry had to be subservient to the nation's need; its leaders were often selected because of their ideological zeal; the individual had to accept conformity and praise was bestowed on groups, never individuals.

The effects were plainly identified by the Party Central Committee in 1984. "Enthusiasm, initiative and creativeness have been seriously dampened and the socialist economy is bereft of much of the vitality it should possess," they said.

Mao's wish for a group mentality gave China the "danwei," the organisation to which all workers owe an allegiance. It can range in size from 10 people in a small workshop to thousands in a steel plant.

Everyone who is working belongs to a danwei, which is a basic building block of the Chinese bureaucracy. A large danwei provides welfare and housing for its workforce. Workmates are, therefore, also neighbours. Privacy and independence are rare. Safety lies in conformity.

The repercussions on contemporary Chinese management style are immense. The group mentality leads to the view that anonymity is the best form of survival.

This tendency to conform, which has its roots in the centuries of a rigid peasant society, is maintained by the ever-present surveillance of the neighbourhood party committee.

The purges and recriminations of the Cultural Revolution have served to emphasise the traditional bureaucratic virtue—*that he who does nothing* makes no mistakes.

Chinese bureaucratic self-protection is highlighted in *negotiations for foreigners.* Every detail is seriously recorded, technical specifications are collected avidly. It is easy to agree on the value of obtaining information. Furthermore, the more facts the Chinese have the less the risk of making mistakes.

Foreign companies have, therefore, found that the Chinese will repeatedly request re-negotiation to ensure a fair *deal and, to some extent, put off* the inevitable day of decision.

Time in China does not have the same value as in the West. Taoist philosophy suggests that time travels in a circle. It makes no concession to the capitalist dogma that time equals money. Bureaucracy simply adds to the often-experienced feeling of inertia.

"They don't understand that *time is money," said one foreign* businessman. "It is probably their biggest problem. They're prepared to talk and talk for hours, not realising that it's money wasted."

Foreign companies have found themselves spending large sums of money and many man-hours on training their Chinese employees. Foxboro, a US electronic instruments company, spent 125,000 man-hours on training in the first three years and more than 50 US experts spent some time in China.

With such obvious differences, mixtures of Chinese and foreign management styles can cause problems. Chinese organisations are hierarchical. It is not uncommon to find organisations in which the only level at which the production department speaks to the accounting department is board level.

It can often mean that decisions which in Western organisations can be made within hours in China carry on painfully for months.

These management differences are heightened in joint ventures where the gap in understanding *is* worsened by the differing life-styles of Chinese and foreign executives. Western managers are often confined to a hotel existence which denies them any social contact with ordinary Chinese.

It is also difficult for a Chinese manager to understand why his foreign colleagues have to return home for rest and recuperation when he has to work throughout the year.

Foreign executives, for their part, may have trouble in accepting *the common Chinese practice* of reading a newspaper and drinking tea in the office before starting the day's work.

Some management problems arise from the control still exercised by the central Government. From the founding of the People's Republic in 1949, economic and industrial management at all levels has been inextricably mixed up with politics.

Early enthusiasm in the 1950s was for the Soviet model. The Cultural Revolution reinforced central control and broke down obstacles in communicating Mao's undoubted charisma, and dogma, to the people.

Since 1976 there has been an apparent decline in such dogmatic politicising. In pursuit of "Socialist modernisaton," interest in and practce of business has grown enormously.

Government spokemen are now capabale of criticising central control and refer to "meddling in enterprise affairs" and "too many authorities lording over the enterprise." The new party line is that enterprises will become "independent and responsible for their own profit and loss and capable of transforming and developing themselves" (according to their 1984 Congress).

Part of this development is the "director responsibility system" which switches managerial responsibility away from the enterprise's Party Committee.

Analysis of six Peking enterprises shows that the results so far are mixed. Three of the enterprises had already adopted the director responsibility system while the others remained tied to the decisions of their party committees. Managers reported a relaxing of state control, but in certain key areas their power was still restricted. These included pricing, decisions on investment levels, salaries and the number of employees.

The gulf between management and working practices means that a foreign company's most basic assumptions may well be wrong. For the Chinese business is not simply business; it is friendship. Doing small favours for important officials, like helping his son to apply to a foreign university, is an important component. The Chinese prefer to do business with people they like and trust.

Workers at the Baoshan steelworks near Shanghai

A power structure run by personal vested interests is deeply entrenched. Despite the loosening of central control, the idea of a management accountable to an independently constituted board of directors is still alien to the Chinese.

When a board of directors exists, as in joint ventures, it is only able to assert itself when its members are in agreement. Such agreement between the Chinese members is likely to have been reached beforehand. Indeed, the chief Chinese decision-makers may keep well away from the central stage. Debate can therefore be rather hollow.

Again, *this is partly a result of* bureaucratic self-protection. The quota system and seller's market have also affected attitudes to customers. Visitors to Chinese hotels, for instance, have observed that in place of customer service there seems to be employee service. The organisation's main task is to look after the comfort of its employees.

Poor service intrudes into the life of all Chinese. It is not, as sometimes thought, experienced only by foreigners. Buying an airline ticket in Peking can be a daunting experience for Chinese and foreigner alike. It involves a great deal of time and unceremonious shunting from window to window. More mundane activities, like making a 'phone call, can be equally irritating.

It is clear that the Chinese realise the necessity of learning different methods of management education. In 1977 there were no business schools in China. Now the intention is to train 12m managers by the year 2000.

This process is co-ordinated by the State Economic Commission (which ranks higer than a ministry). It has already set up nine special training centres which display an eclectic taste in management education. The centres at Peking, Dalian, Tiajin, Chengdu and Shanghai have European, US, Japanese, Canadian and West German involvement respectively.

They are supplemented by 76 Enterprise Management Institutions which offer relevant education and training.

A notable example of the Chinese enthusiasm for education is the Management Centre for Economic Cadres in Peking. Established in 1979, the centre's aim is to train top managers for jobs in the main cities and provinces. It involves the EEC and academics from Europe's top business schools teaching there; 20 full-time professors and up to 50 part-time instructors are employed there.

China is undergoing an important cultural evolution—not the revolution some might fear. The desire for change was perhaps most potently expressed at the 12th Party Congress in October 1984, which greatly expanded the acceptable limits of management.

According to the new policy, management is to be responsible for specifying explicitly the requirements for each work unit and the duties of each worker. The need to raise the sense of responsibility and encourages initiative, enthusiasm and creativity was accepted. This clearly involves linking workers' pay to performance.

Deng Xiaoping summed up the new attitude in a much quoted proverb: "The colour of the cat doesn't matter as long as it catches the mice."

A greater knowledge and awareness of effective management goes hand-in-hand with political change. The separation of the state's economic and political functions and the slow process of decentralisation should make understanding easier. But full understanding may well lie many years ahead.

Nigel Campbell

Dr Campbell lectures in strategic management at Manchester Business School.

Incentives reach the shop floor

Profile

Shanding

HIDDEN away in the sprawl of a provincial city, the Shanding factory is China's biggest manufacturer of engineering products and also a good example of the management and logistical problems faced by Chinese enterprise in the 1980s.

Solution of these problems often makes demands on the senior manager's personal contacts. Getting suitable supplies and raw materials is often difficult and the manager must devote much time to building up and maintaining good relations with key suppliers.

Even a gift of apples from the factory orchard may help. To the Chinese such friendly acts and gifts are important. Business is transient but friendship is eternal, they believe.

Every enterprise is subordinate to a higher authority and the Shanding factory is no exception. It is answerable both to the local municipality and to the relevant government department in Peking.

Before Chinese economic reforms began these higher authorities provided the money, took the income from sales and decided all the details of the production plan. All decision-making power was concentrated in the hands of higher authority. Until 1984, the manager had to keep track of 20 or more production targets on which he had to report regularly.

The situation is now easier *and fewer reports are required.* But old habits die hard. During the long period when all that mattered was meeting the production quota the Shanding factory, like many others, fell into the habit of a "10-20-70" work pattern.

Under that system 10 per cent of production is completed during the first 10 days of the month, another 20 per cent in the next 10 days and the remaining 70 per cent in the final 10.

"It need not be like that," the manager says. "But for good or for bad this is our habit. We've worked like this for two decades *and change is not easy.*"

Although the monthly pattern is set, some changes are taking place. A system of bonuses is at last bringing some incentive to the shop floor. But their impact is often blunted by late supplies so that workers must sit round waiting for vital components. The bonus system has become so rigid that every worker expects an extra payment of at least 10 yuan.

The Shanding factory spends less than 0.01 per cent of its turnover on marketing. The reasons are easily identified. Up to 1984 over 80 per cent of sales were allocated by the state plan. Every year the central planner organises a trade fair to which only one distributor from each province is admitted. The factory and the distributor each receive a copy of the delivery schedule.

To a large extent the management's hands are tied. The importance of quotas is such that they even advertised in the local paper when the factory had no spare parts. Customers were told that the factory was too busy meeting its quotas to supply spare parts.

Opportunities to create a long-term strategy are few. Marketing remains relatively unimportant, and the best workers usually find their way into the purchasing department where problems abound.

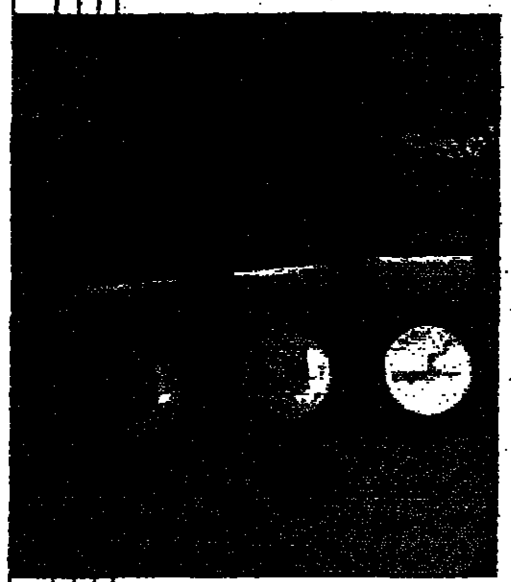
Even if distant markets are unconquered the management can remain unconcerned. In China's sellers' markets customers are anxious to obtain the products even if the designs are 20 years out of date.

The management would like more freedom. They identify the labour problems of recruitment and dismissal and the setting of wage levels as central concerns, for it is almost impossible to dismiss those who "eat from the iron rice bowl"—workers recruited before the end of 1985.

Nigel Campbell

Sichuan Foreign Trade Corporations

China National Native Produce and Animal By-products Imp. & Exp. Corp., Sichuan Tea Branch



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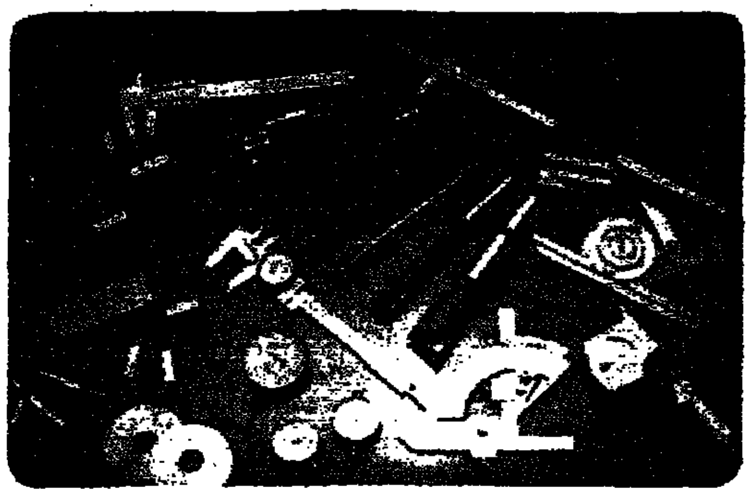
Sichuan Machinery and Equipment



SCOPE OF BUSINESS

Measuring and cutting tools, standard fasteners, machine tools, forging press machinery, bearings, electrical products, forgings and castings, argricultural machinery and diesel, hydraulic and thermal turbo-generator sets, instruments, meters, loaders, cranes, excavators and other mechanical and electrical products.

We accept orders for processing supplied materials, assembling to supplied samples or drawings; manufacture to clients' samples and business of compensation trade and importation of technology. We also import various kinds of mechanical and electrical products.

China National Machinery & Equipment I/E Corp., Sichuan Branch
Tel. 28401 29547, 23057 Cable 2895 CHENGDU
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Orders for Sichuan Animal By-products are most welcome!

ANIBY MADE IN SICHUAN CHINA

Sichuan Animal By-products Branch of China National Native Produce and Animal By-products Imp. & Exp. Corporation would like to express best wishes to friends and partners in trade and business circles all over the world. We wish you prosperous business and big profits.

We deal directly in the following items:

Feathers and down, down products, fur products, leather shoes, leather products, leather garments, various kinds of gloves, woolen carpets, silk carpets, raw goatskins, pig and goat leather, hog and goat casings, bristles and bristle brushes, rabbit hair, fine tail hair and animal fertilizers and feedstuffs.

Enquiries and orders are most welcome.

China National Native Produce & Animal By-products I/E Corp., Sichuan Animal By-products Branch
99 Hong Xing Zhong Road, Chengdu, China
Tel: 25864, 25881 Chengdu Cable: 6651 Chengdu Telex: 60153 CNABS CN

Sichuan Light Industrial Products

Traders all over the world are welcome to contact us by correspondence or in person for business discussion. We are ready to cooperate with you by way of processing to supplied samples, processing supplied materials, compensation trade and joint venture. To facilitate business contact, we have set up a show room in Guangzhou where samples are displayed and talks can be held.

Our import department deals mainly in the following:

Family electrical appliances, electronic devices, instruments and meters, plastic products, building and fixing-up materials and equipment. All kind of paper and office equipment. Stationery and sporting goods and facilities; Light industrial general merchandise, articles for daily use, raw and supplementary materials for producing the mentioned products. Assembly, inspecting instruments and meters, single machines or complete plants for manufacture of the above-mentioned products.

We adopt various flexible ways of trading and cooperation.

Our export commodities mainly include:

General Merchandise
Bicycles & Bicycle Spare Parts
Travelling Shoes
Spectacle Lenses
Plastic-ware
Plastic Woven Bags
Refuse Bags (PE)
Plastic Rope
Glassware
Enamelware
Stainless Steelware
Plastic Soled Cotton Shoes
Shoe Polish
Detergents
Plastic Sandals
Skillet
Zippers
Needles

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Chemical industry in Sichuan

Sichuan is well-known for its abundant resources of bittern and natural gas. Its full-fledged chemical industry boasts a technical force of high calibre and exceptional productive potentialities, which lead to the manufacturing of immense variety of products. It is one of the important bases for manufacturing industrial chemicals in China. Its total output volume and profits rank top in the chemical manufacturing section in China.

The chemical products manufactured in Sichuan total some 400 categories, which include natural gas, acid and alkali, salt chemicals, paints, coatings, chemical fertilizers, chemical minerals, synthetic materials, chemical agent, explosives, pesticide, of which 70 kinds are exported abroad.

They are mainly: Barium chloride, Sodium sulphate, Ammonium Chloride, Melamine, Vanadium pentoxide, Potassium permanganate, Ammonium molybdenum, Trisodium phosphate, Calcium base grease, Oxalic acid, Phosphoric acid, Yellow phosphorus, Hydrazine hydrate, Sodium silicofluoride, Boric acid, Sodium sulphide, Lithium carbonate, Furfural, AC blowing agent, Iron oxide yellow, Carboxy methyl cellulose, Dicalcium phosphate and so on.

Among them, the manufacture and export of Barium chloride and Melamine rank among the top in China. The above-mentioned chemicals, some of which are highly-acclaimed in world market, are exported to over 20 countries including Hong Kong, Macao, South-east Asian countries, Europe and the U.S.

From 1985, the import and export of chemicals are handled directly by China National Chemicals Import & Export Corporation, Sichuan Branch.

Besides dealing in import and export business and handling shipment and negotiation with banks, main ports and airports around the world, we are also developing other business including joint venture and compensation trade. Business people in the trade circles from all countries of the world are cordially invited to have business talks with us. Inquiries and orders are most welcome.

China National Chemicals I/E Corp., Sichuan Branch
Address: 16, Section 3, Renmin Road, C., Chengdu, China
Telex: 60156 CHE CN Cable: U552 CHENGDU Tel: 32463 33848

Back to the nature

Sichuan Branch of China National Cereals, Oils and Foodstuffs I/E Corp. deals in the export of frozen rabbits. These frozen rabbits are chosen from a particular kind of rabbits which are kept in small scattered groups and fed with natural fodder during the long-sunshine rearing period. Our rabbits taste tender and succulent and are highly nutritious. They contain low fat and high protein, thus nourishing the skin and strengthening the physique.

For further details, please contact our advertising department.

COF

China National Cereals, Oils and Foodstuffs I/E Corp., Sichuan Branch
Address: 16, Section 3, Renmin Road C., Chengdu, China
Cable: 9037 Chengdu Tlx: 60149 SCOF CN Tel: 27048

SICHUAN SILK

Sichuan is one of the important silk production bases of China. Silk reeling, weaving has a history of thousands of years. As early as two thousand years ago, Sichuan Silk had found market in India, Iran, Afghanistan, Japan and other countries.

At present the main items we handle include:

Cocoon and raw silk:	mulberry cocoon, raw silk and spun silk materials with all kinds and specifications.
Silk piece goods:	pure, mixed, rayon, and noil silks.
Silk clothing:	variety of silk fashions, embroidered garments and silk knitting garments.
Silk ready-made goods:	embroidered screens and pieces, table cloths, scarfs, neckerchiefs, handkerchiefs, bedding, etc.

China Silk Corporation, Sichuan Branch.
Address: No. 65, Luo Guo Lane, Chengdu, China.
Tel: 29730 29565
Cable: 5729 Chengdu. Tlx: 60106 CSSB CN

Sichuan Machinery

Sichuan Branch of China National Machinery I/E Corp. is a specialized trade firm under the Ministry of Foreign Economic Relations and Trade. Our scope of business includes the import and export of the following:

Machinery for cereals, oils and foodstuffs processing, printing, construction, packaging, light industry, leather and shoe making, textile and knitting, chemical industry and rubber, graphite electrode, geology and petroleum; a wide variety of weighing apparatus, fire-fighting equipment, electrical engineering, glass, teaching aids, cables and wires, complete sets of equipment for small scale hydroelectric power stations, electronic components, hard alloy cutters, three cone bits, handwork tools, farm implements; agricultural machinery, internal combustion engines.

We also accept business in joint venture and compensation trade and can manufacture to clients' samples or specifications.

For details, please contact us either by mail or telex. Business talks with friends from countries around the world are most welcome.

CMC

China National Machinery I/E Corp., Sichuan Branch
Address: 16, Section 3, Renmin Road, C., Chengdu, China
Tel: 31971 32112 33651 Telex: 60139 CMMS CN
Cable: 2751 or "SINOMINER" Chengdu

Sichuan Metals and Minerals

Established in early 1950's, Sichuan Branch of China National Metals & Minerals Import & Export Corp. is a specialized trade firm under the Ministry of Foreign Economic Relations and Trade. We have 30 years' trading experience, and always uphold the principle of "abiding by contracts, keeping faith on the basis of mutual benefits and offering the best services".

Main Lines: steel materials, metallic products, aluminium products, construction hardware, tungsten and tungsten products, electrolytic manganese metals, calcium metals, silicon metals, beryl, ferro silicon, ferro tungsten, man-made crystal, garnet sand, slats, asbestos, mica products, marble, granite, terrazzo tiles, barytes, vanadium pentoxide, vanadium bearing slag, gypsum, talc, construction materials, refractory materials and others.

We also accept orders for processing to your samples, processing supplied materials and business of joint ventures and compensation trade.

Friends in the world are welcome to come to Sichuan and discuss business with us.

China National Metals and Minerals I/E Corp., Sichuan Branch
Address: 16, Section 3, Renmin Road, C., Chengdu, China
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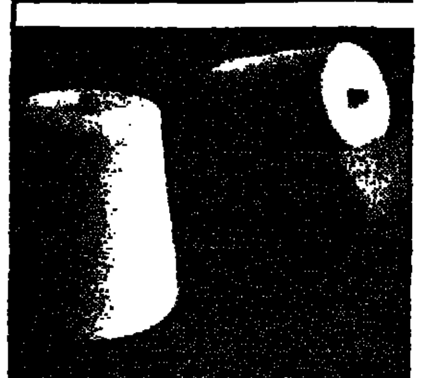
Sichuan Textile Import and Export Trade has bright prospects!



With its vast territory and rich resources, Sichuan abounds in natural fibres such as cotton, linen and silk, and thus has favourable conditions for the development of textile industries. Since the founding of the People's Republic of China, Sichuan's textile industries have been growing rapidly day by day with the flourishing national economy.

Our export value in 1983 was 2 times of the target, and the export in 1984 was more than twice as much as that in 1983. In 1986, the total export of the first seven months has already reached the target of the year.

Currently our export items include all kinds of cotton yarn and fabrics, linen yarn and fabrics, cotton goods, cotton and woolen knitwear, garments and woolen goods. Available in great variety and in complete specifications, they are also novel in design and superior in quality. They are now marketed to dozens of countries and regions including the U.S., Europe, Japan, Southeast Asia, the Middle East, Hong Kong and Macau, and are very well received by consumers.

Apart from exporting the above textile products, we adopt flexible trading practices and accept business of processing imported materials, processing supplied materials and compensation trade. We also import textile machinery, technology and equipment, and raw and supplementary materials required for textile production.

Businessmen all over the world are welcome to contact us by correspondence or come to Sichuan to discuss business with us.

China National Textiles I/E Corp., Sichuan Branch
16, Section 3, Renmin Road C., Chengdu, China
Tel: 32662 Cable: 3030 Chengdu
Telex: 60151 SITEX CN

Finance and banking

Firm control taken by central bank

A FEW years ago China's banking system was simply a channel for state-given grants. Today, under Deng Xiaoping's economic reforms, it is learning to manage loans profitably, experimenting with inter-bank money markets, overseeing company stock and bond issues and organising a market in foreign exchange.

On the foreign side, it no longer merely finances trade. It handles forward foreign exchange transactions, decides future exchange rates for the yuan, and carries out many of the activities of banks in capitalist countries.

Early this year all these functions were put firmly under the control of Peking's central bank, the People's Bank. China has four specialised banks: the Industrial and Commercial Bank, the Agriculture Bank, the Construction Bank and the Bank of China, its foreign trade arm. It also has a number of financial institutions, all responsible to the People's Bank.

The People's Bank, under Mme Chen Muhua, its chairman and politbureau member, has become the most important mechanism for running China's gradually liberalising economy. It is likely to become still more powerful if its funds grow larger than the revenues dispensed by the Ministry of Finance through the Budget. According to Tong Zengyin, People's Bank vice-president at more than 100bn yuan, they may already exceed them.

The loan business, to an extent traditional even in the centrally-planned China of the past, has been a key sector in managing the economy this year. In 1985, a credit boom and consequent burst of construction and shortages caused Peking to cut loans to industry. This year factory managers have been hamstrung by shortages of cash and aggravated by the fact that banking officials do not have the training to assess worthwile proposals.

While the credit squeeze has given Peking the drop in the industrial growth rate it sought, the deficiencies of the banking system have meant that the real problems—rash and ignorant expansion—have been left concealed, to resume when the squeeze is lifted.

This situation has been slightly eased by the launch of interbank borrowing. Initially this was confined to five key cities—Shenyang, Chongqing, Wuhan, Canton and Changzhou—but had spread experimentally to a much larger number by November.

"This makes it much easier and quicker for local factories to get loans," said Lai Shiyao, Xiamen People's Bank deputy manager. "Bank branches can lend to each other."

Further flexibility has been introduced this year by allowing banks to discount bills.

At the same time enterprises are encouraged to raise investment capital by selling bonds or shares. This system, which has been operating in a few cases for several years, has now spread to most cities in China, but with no uniformity. Permission to go public is necessary from the People's Bank, but the type of stock or bond issued varies.

Few of the "shares" sold are genuinely part of a company's equity, though in some collective enterprises they may be. When state institutions sell "shares," these are really interest-bearing bonds and the value will not change. There are some purely Chinese innovations in the system—for instance, the Tianjin Flying Pigeon Bicycle Factory's bonds carry a coupon entitling the holder to buy the normally-rationed Flying Pigeon bike.

Rudimentary stock exchanges have come into being this year, notably in Shanghai and Shenyang. Some share issues are sold through the banks, and a secondary market of sorts has emerged in which buyers and sellers contact one another unofficially. So far, there are few government controls.

Informal foreign exchange markets have also emerged this year. This is in response to the state's reluctance to provide dollars out of its dwindling reserves to joint ventures and other enterprises which need foreign exchange to import equipment.

Tong Zengyin, vice-president, People's Bank of China

The new system is meant to provide a forum for companies with excess foreign exchange to sell at a premium. The major problem, pointed out one official in Xiamen Special Economic Zone, is that few have any surplus.

To prevent black market dealing, these "foreign exchange adjustment centres" are officially controlled by the State Administration of Exchange Control, an arm of the People's bank.

The question of foreign exchange has dominated most of China's foreign banking activities this year. Peking's reserves, which had already dropped from nearly US$17bn in September 1984 to $12.6bn a year later, have since fallen to $10bn.

Many Chinese enterprises, already short of foreign exchange and facing a government unwilling to provide [illegible], have lost heavily this year because of the rise of the Japanese yen and the Deutschemark. To help out the Bank of China has begun forward foreign exchange transactions as a hedge for companies buying abroad. By mid-December, it had already handled more than [illegible] worth of transactions.

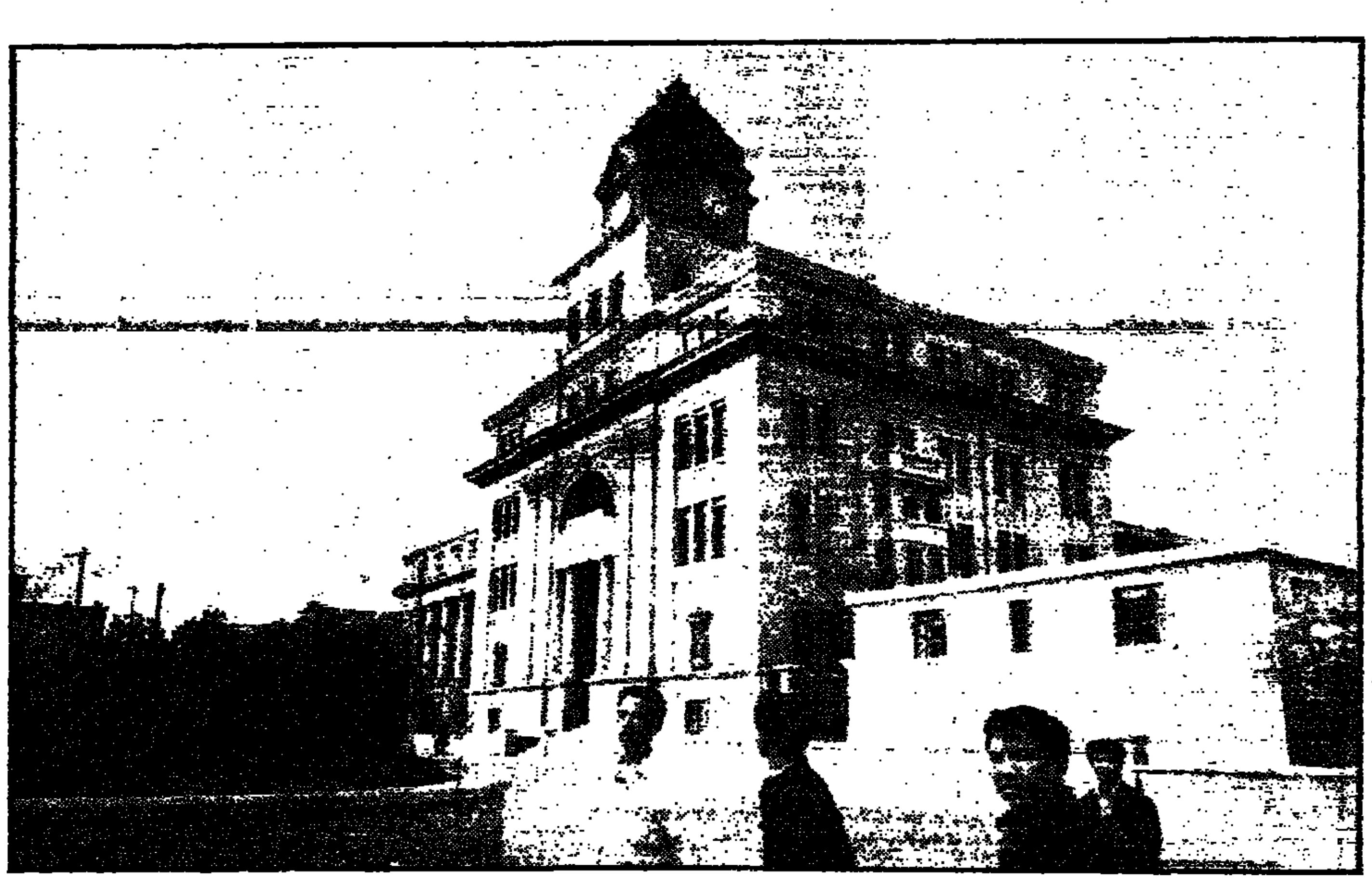
Devaluation of the [illegible] by 15.8 per cent in July [illegible] still harder for Chinese enterprises dependent on [illegible] to survive. However, [illegible] exports a more competitive edge. Further devaluation to bring domestic prices [illegible] line with international [illegible] seemed likely, but Chinese officials would not predict when this could happen.

Nor were they willing to say when the abolition of Foreign Exchange Certificates, promised early in 1986, might happen. This seemed to have been indefinitely postponed when Peking realised how difficult it would be. The FECs, originally meant to exclude Chinese from hotels and shops meant for foreigners, now circulate all over China through a black market.

The fall in foreign investment this year pushed China into borrowing more abroad. In the first half-year, Chinese institutions issued about $934m in bonds on international markets (nearly 70 per cent of which were in Japan). China's total borrowings abroad in January-June including commercial bank loans and government loans, came to $2.57bn, three times the 1985 figure in the same period.

With further bond issues since then in West Germany and Singapore, China's total for 1986 will be substantial. The days when Chinese bankers lived behind their bamboo curtains now seem remote.

Colina MacDougall



The Bank of China headquarters in Peking

Shenyang

Bonds rush has masses talking

NEAR THE front door of the Shenyang Bond Exchange, an apple seller discusses the latest interest rates with her comrades. She has bought bonds worth US$300, almost twice the annual wage of the average farmer, because she wanted to "help increase productivity and because the interest is higher than at the bank."

The coming of bonds to Shenyang, the industrial heavyweight of northern China, has become the talking point of the masses. It is said you have to queue at 2 am to be sure of getting a share of a good issue, and that the more conservative Communist cadres think the bond rush has gone too far.

Shenyang has gone further down the road of financial reform than any other Chinese city. As well as bonds, it has limited share issues, auctions of public enterprises, commercial paper, and Communist China's only bankrupt company, the Shenyang Explosion-Proof Equipment factory.

The city planned to allow another factory to go under early next year, according to Li Zhenqing, vice-director of the Collective Enterprise Bureau, which has been pushing for a bankruptcy law. He admits that the first bankruptcy in August was a "great shock" for many people: "The workers thought the factory was their mother and would always look after them."

Li says a propaganda drive has been launched to make the city's residents understand that a form of bankruptcy is necessary for the overhaul of industry, and to prepare them for the second failure—there is a list of about 30 ailing companies from which to choose. He does admit that the first case could have been better handled.

"We have our problems. We did not arrange the workers very well, and we still have 20 or so (out of 121) who have not got jobs. We also have to improve the insurance payments for the workers," Mr Li says.

Shenyang became an important communications centre early this century after the Russians linked it to the trans-Siberian railway. Then the Japanese built up industry during their occupation of Manchuria, while the Russians looted factories at the end of the war, and then helped rebuild them after the Communists won the Chinese civil war in 1949.

Renovating the factories of China's fifth largest industrial producer became a priority in 1982, when it was realised that the city was stagnating and when a 240m yuan programme to modernise 137 industrial enterprises was undertaken. The city was also ripe for a financial overhaul.

Wang Siliang, general secretary of the System Reorganisation Department, says the city's leaders had heard that Chongqing, in the south-west, was to experiment with financial reform. The leaders demanded that Shenyang be allowed to do the same, and presented a report to Peking, which approved the application in early 1984.

Since then, the city, which has the decision-making power of a province, has concentrated on three reforms: the rental of small industrial enterprises to individual managers, bankruptcy and share issues.

In late 1984, the Shenyang Power Industrial Company chose two of its subordinates, the Shenyang Petroleum Pump Factory and the Shenyang Axle Factory, for rental by individuals, who were invited to tender for the enterprises. In the first year of operation under new managers, profits at the factories increased by 320 per cent and 1,300 per cent respectively.

In November this year the city took the process a step further by auctioning a public enterprise, a food store, and allowing an individual to buy the stock and right to manage, though the building and land remain state property.

Two months earlier, the city had auctioned three collective enterprises, also food stores. Wang Siliang says the auctions are "creative" and designed to "motivate the rest of China."

"We will learn lessons from these enterprises and then decide what to do next," he says.

There are "opposing opinions" in Shenyang's government on the issue of bankruptcy. "I cannot say that we all hold that bankruptcy is right," Wang says. "More than 50 per cent of cadres support bankruptcy, but I cannot tell you whether it is 60 or 80 per cent.

"The people did not think it could happen. Our city has a special right, so we do not have to get approval from the central government if there is another bankruptcy. It is a motivation for other factories."

His explanation shows that the Government's reasoning behind bankruptcy is similar to that behind capital punishment, which it invokes with the motto "Kill one to teach 100."

Experimentation began late last year when the Bureau of Engineering Industry allowed two collectives, the Shenyang Compressor Factory and the Shenyang Compressor Air Valve Factory, to issue to staff shares worth about 16 per cent and 13 per cent of assets. Wang said the Government has no plans to issue shares to the public.

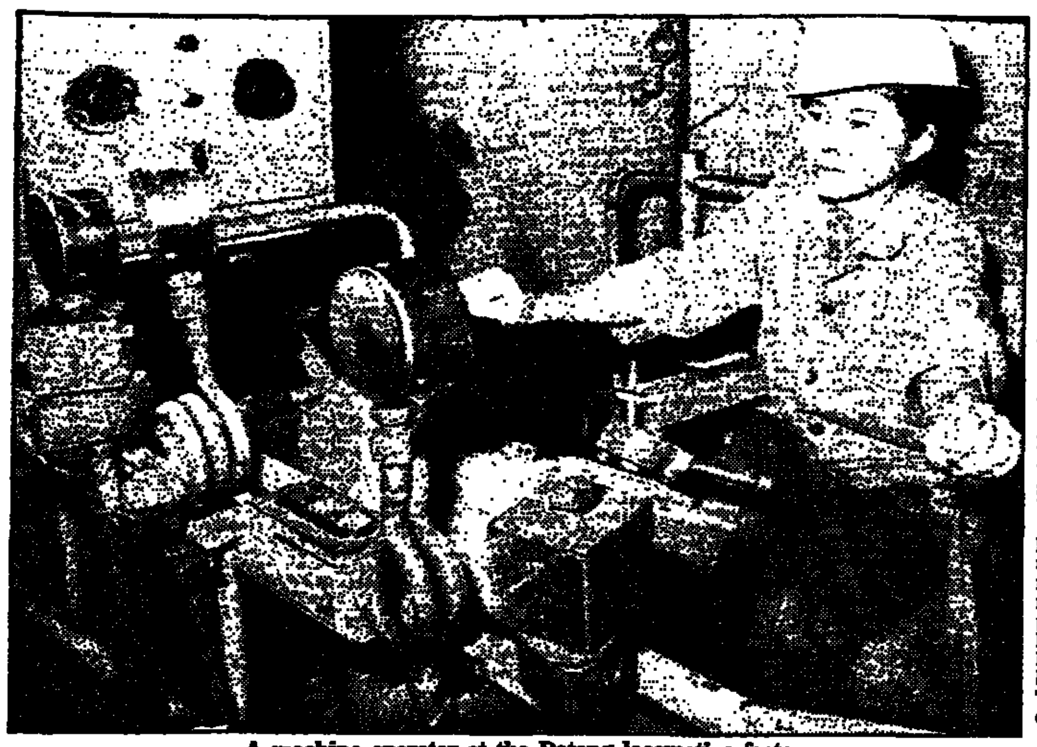
"We have some ideological problems. The first thing we should do is experiment and learn from the experiences. Then we should work out the theory and put the law into place."

A sign that some within the Shenyang government are unhappy with the pace of reform was a forced change in the structure for one of the two classes of bonds issued at the exchange. One set of bonds is redeemable after two years at 9 per cent interest, while the other offers 2 per cent interest plus the chance to win a prize in a lottery.

First prize in the draws, in which 10 per cent of holders win something, was an apartment worth 20,000 yuan, but Quan Jushan, deputy manager of the Shenyang Investment Trust Company, which runs the exchange, said the Government decided that the first prize could be worth no more than 8,000 yuan.

"We do have different opinions," said Quan, who is a party member. "We should do some more work so that we can combine a good idea with good ideology."

Robert Thomson



A machine operator at the Datong locomotive factory

China's industry

Inflation shackled down

CHINA'S industry faces big problems but it has temporarily recovered from the burst of growth which caused alarming inflation and shortages in 1985.

In the first nine months of this year, the rate of growth of industrial output fell from the 1985 high of 23 per cent to 6.4 per cent. Diplomats in Peking expect this to reach 7 per cent to 7.5 per cent by the end of the year, just short of the planned target of 8 per cent.

This was achieved by applying strict financial and economic controls in mid-1985 when inflation and overspending soared. While the curb meant a substantial cutback of Peking's newly launched industrial reform policy, it succeeded in reducing the growth rate for all 1985 to 18 per cent and then to 4.4 per cent for the first quarter of 1986. Since then, expansion has picked up again.

Also on the credit side, diplomats point out that although many industries slowed production or registered a fall, output of key items like construction materials, energy and textiles showed little fluctuation.

It was the low-demand industrial and consumer goods, they say, or those with saturated markets such as small tractors or TV sets, which collapsed.

However, Peking still has hurdles to overcome. The most crucial is how to continue the reform—essentially, giving more decision-making power to managers—and at the same time keep expansion under control. There is no sign that China's leadership knows how to do this.

Although output growth has slowed this year, investment in industry has soared again. State spending on fixed plant and equipment rose by 15 per cent in the first nine months, far ahead of investment targets. Spending on so-called "technical renovation" went up by 45 per cent, a large figure which probably conceals much new capital construction.

Peking has tried to use what it calls "indirect levers" to control the economy, raising interest rates instead of simply giving orders. But many managers borrow no matter what the cost. Factories also seem to be able to use funds earmarked for other purposes such as welfare to buy new equipment.

On top of that, this year there have been cases where managers got rid of old stocks by selling them on credit, and then borrowing from the bank on the strength of the money owed.

Peking is still faced with the uncomfortable fact that around 20 per cent of its state-owned plants are operating at a loss, a fall of only 4 per cent since 1979. Though this figure is a rough guide to the problem, its real size cannot be known at present, since the irrational pricing system means that even efficient factories lose money if their raw materials are to expensive. The thorny question of price reform has been shelved till next year.

One answer to the problem of factory losses would be a bankruptcy system. In July a factory in Shenyang was allowed to go bankrupt and its equipment auctioned. But when the proposed bankruptcy law was debated by the National People's Congress Standing Committee in September, it was first shelved and then given only temporary status.

There are obvious problems to introducing such a law, such as the unfair pricing system and the question of what happens to the workers. Solutions are inherently part of the introduction of a market economy, which many in Peking still fear for economic and political reasons.

Colina MacDougall

Baotou steel

Unruffled by management reforms

THIRTY MILES from Baotou New Town, one of the most modern cities in China, some of the mountain people are still living in caves.

To drive up Wudang (willow tree) valley in this western part of Inner Mongolia is to travel backwards in time and witness the great disparity of development in China's hinterland.

A six-lane dual carriageway leads from the city to a metalled road that climbs into the mountains, piercing a still-visible section of the original, earth-brick, Great Wall of 200 BC.

At Shigui, a grim and gloomy hill town, the road drops down to the river-bed and gives up. A rutted track leads on to the coal mine, with its smoking slagheap, past cave-dwellings and mud houses, until it reaches, at the head of the valley, one of the biggest and best-preserved Tibetan monasteries in China outside Tibet.

Apart from the celibate lamas of Wudang, whose poverty is self-imposed, some 17,500 rural families are officially classified as poor. Deputy mayor Zhang Zhiyu said the city hoped to bring three-quarters of them up to the average Chinese living standard in the next two or three years.

"But local people have their own ways," he said. "Perhaps even if we succeed some will still want to live in their caves—they are warm in winter and cool in summer.

The comparative prosperity of the city people below owes a lot to the steelworks, around which the new town was built in the 1950s. Spread over 760 acres to the west, the steelworks is one of the largest in China. It employs 60,000 people altogether, for an annual output of under 2m tonnes a year of ingots, bars and pipe. Started with the help of the Russians in 1954, who constructed two of the three blast furnaces before the breach in Sino-Soviet relations, it only began paying its way after 1978. It is now said to make an annual pre-tax profit of 100m yuan, of which a percentage goes to the city and the rest to its owners, the government of Inner-Mongolia.

Baotou is trying to diversify out of heavy industry

Output is supposed to increase to 2.5 or 3m tonnes during the present five-year plan, through selective modernisation—of the rolling mills, for example—and better use of capacity. Although managers denied there was any serious bottleneck, a short tour of the works revealed that only two of the four open-hearth furnaces were working (a third is being relined), and two of the three oxygen converters (one is "on standby").

The open-hearth furnaces will not be replaced because of the expense, one manager said, but also because they were better for scrap steel-making and for converting the type of iron ore from Baiyunerbo, 93 miles to the north that Baotou was built to exploit.

An important by-product of the iron ore is "rare earth," a group of chemical elements which have a wide range of industrial uses. Baotou claims to have the biggest deposit of these elements in China, if not the world. It has been trying to entice American, West German and British companies into partnership for developing their application including optics, oil refining, fertilisers, porcelain manufacture and dyeing.

As a state-owned enterprise, the steelworks appears to have been largely unaffected by management reform. Managers said that next year the division heads would have more freedom of decision on production matters and the local party secretaries would take a back seat. But any reorganisation at headquarters would depend on central government.

Like other Chinese industries, the Baotou steelworks already has some measure of autonomy. Instead of "selling" its total output to the state, it now has to provide a quota of 90 per cent of state-determined prices. The rest can be sold directly to customers at prices dictated by supply and demand. Demand being what it is in China—and supply, too—that means at a premium.

Baotou is trying to diversify out of heavy industry on which 80 per cent of its manufacturing output depends. The original investment after 1949 included, besides the steelworks, two machine-building factories three power stations and an aluminium plant that produces 25,000 tonnes a year, mainly for the aircraft industry.

The capacity of the local brewery is supposed to be trebled, a large sugar refinery will be modernised to reduce its energy consumption and foreign technology will be introduced into the fur and leather industry, salad oil manufacture and flour milling. The presence of a dozen West German technicians at the city's guesthouse was evidence that some of these promises are being carried out.

Like administrators all over the country, Baotou's deputy mayor complained of the difficulty of establishing joint ventures. Foreigners would sell machinery but would not invest money, he said. Even then, they wanted to charge international market prices, which could not be afforded.

"Still, negotiating with foreign countries for light industry is easier than for heavy industry," he added.

Baotou is something of a showpiece of Communist rule, in terms of the development of the huge natural resources of the wilderness. Until quite recently, the city was little more than the last staging post on the the Yellow River valley for the old Silk Road leading to India and the Middle East.

The city was supposed to become another Shanghai, until the threat of war with the USSR in 1969 scotched that idea. It has left Baotou with a city grid far in excess of its needs. A special guesthouse was built to receive a stream of dignitaries, including former premier Chou en-lai, and more recently Deng Xiaoping himself.

One of the city's most handsome new buildings, in ultra-modern style, is a social club for veteran cadres—a sort of Darby and Joan club for senior civil servants. But while they sit down to a game of Chinese chess, life for the cave-dwellers of the upper Willow Tree Valley goes on much as it ever did.

Christian Tyler

Motor Industry

Roadblocks on ambition's path

AMBITIONS to catapult China's chaotic. outdated and inefficient automobile industry into the latter part of the 20th century have run into a series of unforeseen roadblocks. A spate of joint ventures with foreign companies and mergers among local plants. have yet to make a substantial impact on an industry in which many models might find pride of place in a Western museum of transport.

The two major foreign ventures to get off the ground so far—the Volkswagen Santana car plant outside Shanghai and the American Motors' Jeep venture in Peking—have been plagued by problems ranging from shortages of foreign exchange and skilled labour to poor personnel relations and inadequate quality of local components.

Last year Chinese consumers opted to import an estimated 345,000 vehicles, equivalent to about 80 per cent of total domestic output. Short of foreign exchange, the Government was so overwhelmed by the response to its relaxation of import controls that in November 1985 it slapped a strict ban on most foreign vehicle purchases for a minimum of two years.

Demand for foreign vehicles has been so great that a group of officials on the island of Hainan imported more than 10,000 and resold them at a sizeable profit. The discovery of the capitalist venture led to a national scandal. In April, a Chinese business official was executed for allegedly passing state secrets and accepting bribes relating to the imports of cars.

In the plan-oriented Chinese economy, soaring imports made little impact on the Chinese domestic industry's output in 1985. Production shot up by 39 per cent to a record 439,000 vehicles, more than double the 1982 output of 196,000 vehicles. But this year Asia's second largest car producer is likely to record only a tiny increase in production.

China has a long road to travel if it is to approach its stated goal of becoming a major automobile exporter with annual production of 2m vehicles by the end of the century.

Key problems are holding up a speedy rationalisation and take-off of the domestic vehicle industry The first is that a clear decision is needed on which ministry or organisation in Peking should have overall control of industry planning. The State Economic Commission, the Ministry of Aviation (Catic), the Ministry of Ordinance (Norinco) the Ministry of Machine Building Industry (MMBI) and the Bureau of Agriculture and the China National Automotive Industry Corporation (CNAIC) are all involved. Clear lines of authority have not been established and decision-making is weak.

The Volkswagen Santana plant at Shanghai

Automobile Output

	000s	% growth
1986*	439-50	—
1985	439	39
1984	316	32
1983	240	22
1982	196	11
1981	176	−21

* Forecast.

Source: China Statistics Yearbook

Also, local resistance to mergers, closures and overall rationalisation is widespread and competition alone may not be sufficient to overcome this problem. More centralised authority to main policy planners in Peking is probably called for.

Moves to decentralise industral decision-making have not benefited an industry which consists of some 3,000 vehicle and component plants around the country. Some are producing basically hand-made products, which makes little sense for an industry which requires large economies of scale.

Other problems endemic to Chinese manufacturing as a whole are holding up the industry. The country's long-debated bankruptcy law needs to be implemented soon if thousands of small vehicle component and assembly plants are to make way for the 10 regional automobile centres which Mr Wu Qinshi, vice president of CNAIC, says offer the best way forward.

Lack of education and skills needed to run modern vehicle plants are compounded by the inability of managers to attract better workers by paying higher wages.

Last, but not least, the country's poor road network is hardly conducive to a thriving domestic demand for vehicles. China has 575,000 miles of roads open to traffic, but until last year there were no motorways and the country had a mere 1,850 miles of first-class roads.

Peking hoped that some difficulties could be overcome by inviting foreign participation, and has signed a host of joint ventures and technology licensing deals. In 1983, American Motors of the US led the way by signing a £11.4m joint venture to produce Jeeps. In October 1984 VW initialled a DM 500m joint venture aimed at producing 100,000 cars by 1990.

In March 1985, Aveling Barford of the US signed a £60m truck venture, and in the same month Peugeot of France joined a FFr 240m venture to produce pick-up trucks in Guangdong. In the some month Iveco, the Fiat subsidiary, signed a US$260m supply and technology licensing agreement to produce vans in Nanking.

Several smaller agreements have been set up with Japanese, British and other foreign companies over the last year.

Two of these ventures have got off the ground, but they have been beset by difficulties. The AMC Jeep plant in Peking ceased production for several months earlier this year when the Government refused to provide the foreign exchange necessary to import vital parts.

Mr Don St Pierre, president of AMC's joint venture, says this and other problems plaguing the plant have been solved, but expects to produce a mere 4,000 vehicles this year.

VW in Shanghai, hopes to have produced 3,300 Santana cars by the end of 1986. But the company faces serious problems over the planned shift to localisation of parts, and a shortage of highly skilled labour.

Mr Zhang Chang Mou, VW local managing director, says problems caused by the devaluation of the Chinese currency, which threatened to lead to severe financing problems for future plant equipment imports, where solved by an agreement reached with the Chinese in October. But he refuses to say whether the deal will require an increase in investment by VW.

Like many others in the industry, he maintains that a few joint ventures will not fix the industry's problems. What is required is an enormous shake-out which can only be brought about by a combination of the right policies at the top and a lengthy period of open competition between domestic producers.

Richard Cowper

People's Liberation Army

Focus shifts towards reform

THE People's Liberation Army (PLA) did not figure prominently in Chinese media reports this year. Unlike the past few years, no radical reforms were launched in 1986. The focus of military activity shifted from innovation to implementation. The PLA settled into a routine of modernisation.

Although the Chinese leadership has designated the PLA as one of the main objects of national modernisation, it has ruled out rapid and extensive updating of weapons and equipment. Such an endeavour would require massive arms imports, which are expensive and would expose China to the dangers of dependence and the difficulties of absorbing sophisticated technology.

The leadership decided, therefore, that weapons renewal, while allowing for selected purchases abroad, would be a slow process that relies primarily on indigenous efforts and would be preceded by economic and technological development. At the same time, reforms which do not require vast outlays but are essential to improving combat capability would be carried out quickly and across the board.

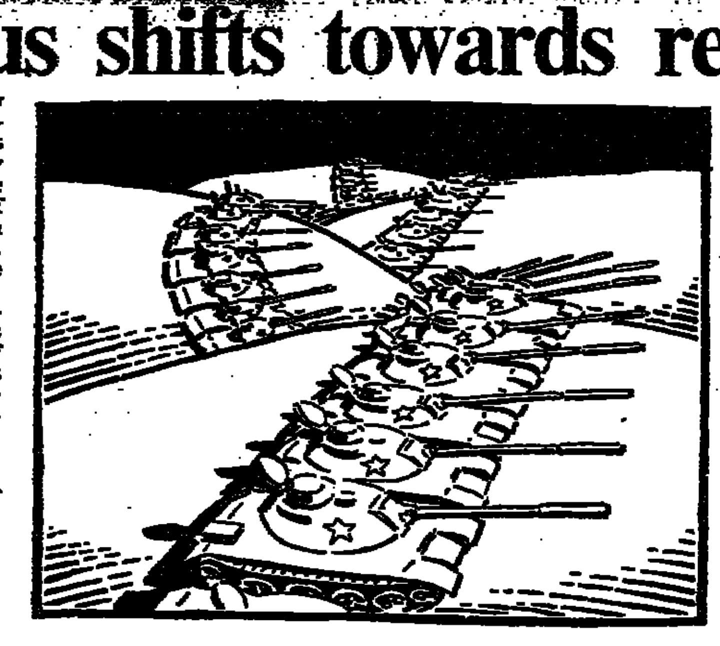
Although the military budget rose a little this year in absolute terms—from about 18.7bn yuan in 1985 to slightly over 19bn yuan—it fell as a proportion of the national budget—from almost 12 per cent in 1985 to about 10 per cent. Since 1980, defence spending has declined by almost seven per cent in relation to total budget expenditures. The growth of the national economy has thus not brought commensurate benefits to the armed forces. Therefore, for substantial increases in expenditure the military have to turn not to the national budget but to savings within their own establishment.

The main source of savings is the massive reduction in the size of the armed forces decided last year. Encompassing about 1m men—including some 500,000 officers, this dramatic demobilisation should be completed by the end of the year.

To meet this target, the leadership pushed ahead with the campaign to get rid of aged and incompetent officers. At the same time, it showed great concern for their welfare and eased their transition to civilian life by providing facilities such as housing, schools, and retraining courses.

Within the limits imposed by the force building policy, the PLA continued gradually to improve its weapons and equipment. This effort has been based primarily on the development and refinement of existing models rather than the acquisition of new ones.

One example is the Type-69 main battle tank—a born-again version of the old Russian T-54 which the Chinese have greatly improved by installing a new gun and fire control systems, adding protective armour, and increasing manoeuvrability. Updated aircraft include several much-improved derivatives of the MiG-19 and the MiG-21.



Military and Security

China's army goes into business—military industries turn to civilian production and exports. Modernisation means retirement for 1m soldiers, and increasingly sophisticated training for the remainder. Public security remains tough, with heavy penalties and a legal system which in western eyes is less than fair.

At the Farnborough air show in the UK this year the Chinese for the first time unveiled a model of the new F-811 fighter, a Chinese version of the MiG-23. It is being flight tested and if successful will go into production shortly.

For updating weapons, the Chinese have resorted to importing advanced technology. Although they have generated more commotion than commerce, significant deals have been concluded. The most important this year has been the agreement with the US Defence Department for the purchase of 55 advanced avionics kits at $10m each for China's F-8 interceptor. The kits include sophisticated head-up displays, integrated navigational and fire-control instruments, and mission data computers.

One measure of China's military production has been the volume of its arms exports. From a country that in Maoist days exported arms on a small scale for political gain and derided other countries for profiteering, China has emerged as the world's sixth largest weapons exporter, with profit as the motive.

This has been facilitated mainly by the Iran-Iraq war in which China has reportedly become a major arms supplier to both sides. The two belligerents have apparently received F-7 aircraft (the Chinese version of the MiG-21), tanks, field artillery, light arms, and ammunition. Another important recipient of Chinese weapons has been Pakistan which has bought aircraft, patrol boats, submarines, and a destroyer.

China's arms sales last year are estimated to have totalled $2bn. Offering a wide variety of items from flak jackets to fighter-interceptors, the Chinese make their pitch primarily to Third World countries because their relatively primitive weapons are easy to handle, simple to maintain, and much cheaper than those available in the West.

In spite of the export surge, China's military industry has considerable excess capacity which the Chinese have put to use producing civilian goods. More than 700 items—from motorcycles, refrigerators, and washing machines to goods requiring more advanced technology, such as drilling equipment and electric products—are being turned out by military factories.

In 1985, some 10 per cent of these goods were exported to two dozen countries. The Chinese plan to expand this production, which serves two purposes: it transfers technology to the civilian sector and it supports a large military industry which is necessary for national defence but cannot be fully utilised at all times.

The limited improvement of weapons has been accompanied by a comprehensive campaign to advance the professionalism of the PLA.

In 1986 the PLA concentrated on carrying out the far-reaching reforms that had been adopted for this purpose over the past few years. Supreme importance has been attached to raising the quality of leadership. The selection, education, promotion, and placement of officers has been directed toward increasing professional competence. The training of troops has been oriented toward preparation for a modern war, with special stress on combined arms operations.

The structure of the PLA has been streamlined and made leaner, more centralised, and more suitable to the needs of modern warefare. The command style and personal conduct of officers have been subjected to rectification. Military discipline has been tightened.

The PLA's preoccupation with military reforms further underlined the decline of its political influence. Veteran leaders, for whom the PLA had been a power base but who also acted as national figures, are no longer active. The number of military men in policymaking organs has dwindled. More important, the professional commanders of the new generation are not inclined by training or temperament to intervene in politics.

Important changes in the Chinese leadership's perception of the external environment lie at the basis of its military policy. One is that the danger of war between the superpowers, in which China would inevitably become involved, has receded. More significant, China is no longer subject to an immediate threat of Soviet military pressure.

The effectiveness of the reforms is difficult to determine because of the extremely backward state of the PLA's conventional forces at the outset of modernisation: even the modest progress which has been achieved seems considerable when viewed against the starting line. However, modest progress is not sufficient to bring it much closer to the level of modern armies, though the reforms have laid the foundation for long-term growth.

Ellis Joffe

Modernisation of the Chinese army has brought in a new uniform and image.

Legal system

Wheels of justice give rough ride

YANG CHANG shuffled into a Peking local court with head bowed. Two police officers put him in his place at the dock. A simple wooden chair at the centre of a drab and cold room, with a notice warning that "smoking, spitting and applauding" are banned.

Facing Yang was a judge flanked by two jury officers All three were in the dark blue military-like uniform of the court. To the accused's left, two police prosecutors fiddled with papers and looked suitably serious.

Yang, aged 21, dressed in a grey Mao jacket and unpressed brown trousers, was before a court for the second time. A few months earlier he had finished a year in prison for larceny. This time he was on charges of having stolen nine bicycles.

The Chinese Government is proud of how it has reconstructed a legal system shattered during the cultural revolution when Mao Zedong branded lawyers as "special enemy agents," and the law was said to be an instrument of "interference, obstruction and oppression."

While the rule of law will never challenge the rule of the Party, China under Deng Xiaoping has attempted to institutionalise stability. There are more courts, better qualified judges and more coherent laws, and yet the justice is still rough.

With the coming of economic reform and foreign investment, the Government has worked particularly hard to fashion a workable "set of relevant laws with the general principle of horizontal economic relationships based on equality." In the criminal law, the scales weigh in favour of the Government and the police.

The Public Security Bureau (PSB), which arrested Yang Chang and detained him for at least two months before his trial, polices China. If the PSB wants to hold a suspect for more than two months while an investigation continues, it needs an approval from the PSB. If PSB officers want a search warrant, then it will be issued by the PSB. It is a law unto itself.

Yang—unemployed, or as the Chinese say, "waiting for employment"—was arrested in August and confessed. The PSB rounded up the bikes he had sold for about US$80. They interviewed the purchasers, mostly farmers, and returned the bikes to their rightful owners. All very straightforward.

The accused told the police he had stolen the bicycles to repay a debt. He was too embarrassed to ask his father, the Dean of French at Peking's Foreign Languages Institute, for money because he was conscious that the larceny offence "had brought shame on his family" and he did not want to bother them.

A continuing theme in Chinese newspapers is the condemnation of senior officials for having used their influence to keep wayward children out of jail. Yu Lei, Deputy Minister of Public Security, explained that such intervention happens occasionally, but emphasised that in China "everyone is equal before the law."

Mr Yu said the Government has been unhappy with the PSB's image and asked it to launch an efficiency drive three years ago. The deputy minister reckoned that public respect has increased markedly, though reports of illegal detention by security officials (949 cases in the first half of 1986) would not have helped.

After reading the charges, the judge and jury took it in turns to question Yang Chang. He is told that he violated section 110 of the legal code, and is asked to describe in detail how he stole and sold each of the bicycles.

Yang explains that he used a screwdriver to crack the bicycle locks, then cycled the stolen vehicles to a park where he kept them until the market opened. They were sold there at about a quarter of their value.

A police officer examines a French-made training weapon at the Asian defence exhibition in Peking.

Judicial prestige—or the lack of it—has been a cause of much concern in China. What judges there were during the Cultural Revolution were little more than lackeys and summarily imposed harsh penalties on hundreds of Mao's political opponents. The Government says it is working towards an independent judiciary, though Cai Cheng, Deputy Justice Minister, said judges are already "virtually independent." He did admit that most judges are Communist Party members.

Mr Cai was asked about the death penalty, which was condemned by Amnesty International in a report on the country's legal system. He said: "Capital punishment plays an important role in bringing the crime rate down. We only punish according to the law."

That judges are not independent is shown by their willingness to sentence criminals to a bullet in the back of the head when the Government decides that it is time to crackdown on economic or violent crime. The sign of these times are large posters plastered around cities with a report of the crime and sentence, and emblazoned with a large red tick to show that the penalty has been carried out.

Amnesty International also strongly criticised China for imprisoning political dissidents for organising "counter revolutionary activities." Cai Cheng said: "We don't have political prisoners."

After the evidence was heard in the case against Yang Chang, the two police officers summed up: "We all know why he wanted to steal the bicycles. He did not think about the people whose bicycles he stole. He is not a new criminal. We think he should be heavily punished."

Then Yang's defence spoke. He strangely suggested that leniency should be shown because the offences were committed by an individual and not a group. He gave no character evidence and no explanation as to the circumstances of the debt. It was a trial that, bearing in mind that it was considered suitable for foreigners to watch, raised more questions than it answered.

In his final say, Yang Chang sought mercy: "I hope you will consider that I am still a young man. Now that our society is changing rapidly, young people are needed. If you do follow the party's policy of being lenient to good criminals, I will become a good citizen."

The hearing was adjourned for 20 minutes. On returning, the judge said there was no doubt of Yang's guilt. Chinese courts tend to presume guilt, and regard a plea of not guilty or the like as an insult that must be severely punished.

"To protect the people's property," Yang Chang was imprisoned for four years.

Robert Thompson

Efficient all-round market machine

Profile

Norinco

THE China North Industries Corporation is the world's biggest arms manufacturer, according to Zhou Peide, it's president. But Norinco, the marketing arm of Peking's Ministry of Ordinance is also one of the country's most efficient all-round business machines.

Norinco makes a large range of weaponry from tanks to rockets, grenades, night vision goggles and laser range-finders. Foreign businessmen confirm that it has good markets, especially in Africa.

"We have more than 200 factories with nearly 1m staff," and our trade is about $2bn a year, mostly exports," Mr Zhou says.

He denied reports that China was selling arms to Iran and Iraq. "We tried selling Iran bicycles but they couldn't pay."

Norinco embarked last spring on a co-production agreement with Britain's Vickers Defence Systems to produce an armoured personnel carrier. The prototype was displayed at the Asian defence exhibition in November, and attracted much interest.

"I respect the courage of Vickers in this operation," said Zhou. "Normally the British are too gentlemanly—they wait to put on a tie while the Japanese will rush out of the house half dressed."

With Deng Xiaping's modernisation policy and the downgrading of defence priorities, Norinco switched about half its factories into the civilian field about four years ago. "Norinco is China's biggest maker of motor cycles," says Zou. "We bought technology from Honda and Yamaha and now have 65 per cent of the market.

"Military and civilian technology have much in common. Our Coca-Cola cans use shell know-how, and we are making pipelines with gun barrel production facilities." The long list of other civilian products Norinco makes includes trucks, cranes, meters, gas cylinders and fire-fighting gear.

"We are allowed to keep most of the foreign exchange we earn, and are gradually buying technology. For instance we bought optical glass know-how from Japan, and we are discussing heavy-duty trucks with Mercedes-Benz.

"We have about 20 small factories in the Shenzhen special Economic Zone, producing items with a good export market such as paint, plastic foam or toys."

Company president Zhou's primary interest may be arms, but Norinco has become a conglomerate which can satisfy most demands from spectacles to water meters and food-processing equipment.

Colina MacDougall

Oil

Foreigners wind down operations

A SMALL number of foreign oil companies are beginning to pack their bags and leave after five or more years of disappointing results in China's offshore oil programme.

BP, the UK oil company, which together with its partners has been the biggest spender after the Japanese in the Bay of Bohai closed in Shanghai office in July, its Zhanjiang operation in September, and last month decided to shut its main base at Canton. At the height of the exploration boom, BP had more than 150 expatriate staff in China. It is expected to retain a token presence of about 10 expatriates in Peking.

Along with its partners, BP spent more than US$200m in exploring five first-round blocks in the Behai Gulf, the South China Sea and the Yellow Sea without finding oil or gas. In last year's second round the company took a so-called seismic option under which it has no obligation to drill.

In November Pennzoil of the US closed its base in Zhanjiang, saying it was no longer interested in offshre oil exploration in China. The company and its partners had spent US$30m "spudding" five exploraton wells in two blocks but failed to find oil. Like BP, Pennzoil will maintain a small presence in the Chinese capital.

Both these companies said they would have been prepared to stay if Peking had come up with a more exciting prospect onshore, such as the oil-rich north-western province of Xinjiang. But hopes that China might open up the region to overseas contractors have faded.

For a number of others which have failed to find oil or gas offshore a joint production contract in Xinjiang may also have held out the last hope of persuading them to maintain a significant presence in what was once regarded as the oil industry's final frontier.

Last year the north-west region produced a mere 6.5m tonnes of oil, but according to the World Bank, Xinjiang's Karamay field alone contains reserves of about 1bn tonnes—equivalent to eight years of China's total output at current production rates.

Local oil officials in Karamay had expressed considerable interest in foreign participation and a stream of oil company executives visited the area over the past year. But according to Ma Qi Fu, president of China's South Huanghai Oil Corporation, Peking has made it clear that it is unlikely to give the green light to such a development.

A saturated world oil market, China's success in offsetting falling petroleum export earnings with sales of other products, and a continuing growth in domestic onshore oil production appears to have dampened Peking's desire to invite overseas companies into one of its most prospectve areas.

Before the slump in oil prices early this year Peking had attempted to revive flagging interest by offering its first onshore area when it invited foreign companies to tender for contracts in the 10 southern provinces. But it was well aware that this unexplored area was not expected to contain a great deal of oil, and interest has been negligible.

There has been only one taker; a group of four speculative Australian oil companies had taken a block onshore Hainan Island, but even this appears to have been negotiated separately with the island's local authorities.

The outlook for overseas participation in China's oil industry, therefore, does not look rosy. Since the early 1980s some 28 foreign companies have spent about US$1.5bn on drilling about 130 exploration wells. Their Chinese partners have spent more than US$300m. But only half a dozen or so have struck oil or gas in significant quantities, and at current prices most would not appear to be viable.

The two projects that have got off the ground are in serious trouble in the north-east, the Japanese have sunk about $600m in exploring and developing the Chengbai Field in Bohai Bay. The field started producing in October 1985, but with output likely to remain at no more than 8,000 barrels per day (b/d) it would take more than 30 years to recoup costs at current oil prices.

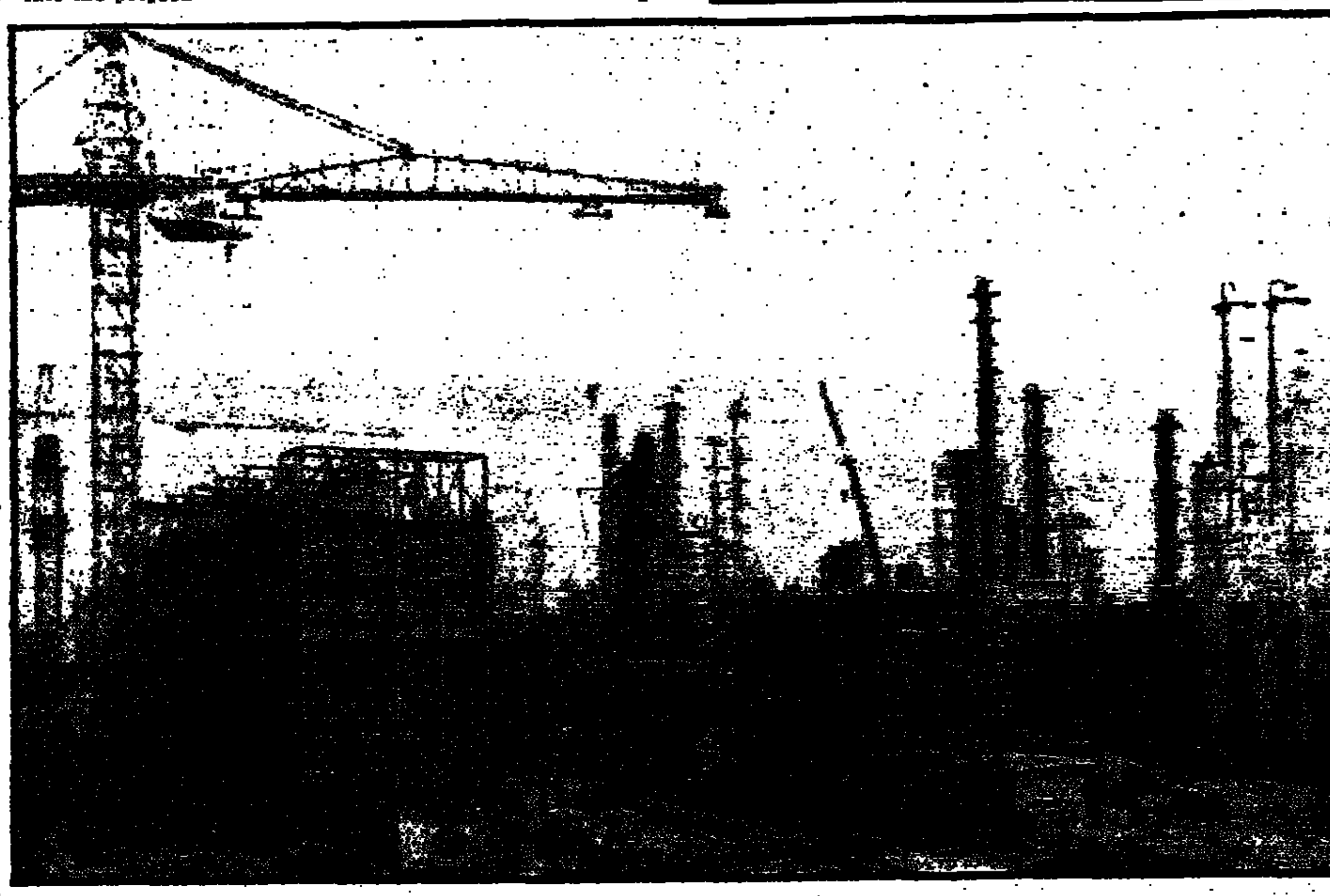
In the south-west, Total of France's Weizhou Field in the Gulf of Beibu started coming on stream in August. Current output of 10,000 b/d hardly covers the production operating costs let alone the estimated $162m which Total and a group of Japanese, Norwegian and Chinese companies have sunk into the project.

Perhaps the biggest potential find has been Arco's discovery of the Yinggehai gasfield off the southern coast of the island of Hainan. The field is estimated to have potential reserves of 90bn cu m. But the $400m project has been stalled by disagreements over prices and sales, and it may not start for several years.

Chinese officials are putting on a brave face. They point to the six second-round contracts signed last year, the five extensions to the first round, and two other contracts negotiated outside existing areas. Foreign companies are expected to have drilled 20 exploration wells during the course of 1986—a level of activity officials say makes offshore China the most active exploration area in Asia.

Both Phillips and the ACT consortium are considering developing oil flows of around 14,000 b/d, they claim. Whether at current prices these companies will decide to go ahead soon must be open to doubt. For many there is not a lot to relieve the general gloom.

Richard Cowper



An ethylene works on the Daqing oilfields in north-east China. This is the country's largest oil production area, comprising seven fields and work is going on to increase the recovery rate by pumping in water to keep up pressure. The Government is willing to spend foreign exchange on new techniques.

Crude Petrol Output

	000 tonnes
1986*	128,000
1985	124,716
1984	114,504
1983	106,068
1982	102,120
1981	101,220
1980	105,948
1979	106,152
1978	104,052
1977	93,636

*Forecast

All production to 1985 is onshore

Source: UN Monthly Bulletin of Statistics

Modernising Energy

Coal output has rocketed, but China's inadequate rail system cannot move it. Paradoxically, some provinces now import coal from Australia. In oil, the search has switched from the disappointing offshore sector to onshore, but Peking has not decided whether to give the multinationals a role

Nuclear

Glittering prize loses lustre

LITTLE MORE than a year ago the world's leading nuclear manufacturers were still entertaining grandiose dreams that China would prove a multi-billion-dollar goldmine for plant and equipment sales well into the next century. Negotiations on a US$4bn joint venture deal to construct two 985MW nuclear reactors at Daya Bay, close to Hong Kong and 43 miles east of Shenzhen, were at an advanced stage. Prospects for nine further plants officially planned by Peking to add an additional 8,000 MW of nuclear power by the end of the century, offered a glittering prize to a world industry that had all but ground to a halt due to environmental and safety concerns.

Last December the US became the seventh country after Japan, the UK, West Germany, France, Brazil, Belgium and Argentina to sign a bilateral nuclear co-operation agreement with Peking. International companies were estimating that the market could be worth between US$10bn to $20bn up to the year 2000.

Talks on a 2,000 MW nuclear plant at Sunan, 37 miles west of Shanghai were under way and foreign companies were beginning to look closely at a 900 MW reactor planned for Jinshanwei, also near Shanghai, and a proposed 1,800 MW plant in the north-western province of Liaoning.

Apart from Daya Bay, however, the nuclear goldmine turns out to have contained little more than a cache of fools gold. The contracts for the controversial plant were signed last September with Framatome, Electricite de France and General Electric of the UK after seven years of often tortuous negotiations. But it is now widely accepted that this was the first and the last complete nuclear plant to be supplied by a foreign company for the foreseeable future.

Negotiations with Kraftwerk Union (KWU), a subsidiary of the West German Siemens electrical group, for the Sunan plant were broken off. It was a bitter blow for KWU, which had been widely tipped to win the estimated £1.5bn contract.

It quickly emerged that those in Peking who had entertained serious doubts about the feasibility and economic viability of the Government's ambitious nuclear power programme had won the day. Mr Li Peng, the Chinese vice-premier in overall charge of energy, said that nuclear power would be a small supplement to other forms of energy generation, and these plants that go ahead would be largely done by the Chinese.

The main reasons for the change of heart were:

- High initial cost of importing nuclear power plants at a time of continuing shortages of foreign exchange. It was felt that foreign exchange earnings would be better employed in developing other areas of China's fast-growing economy.
- Doubts about the cost competitiveness of nuclear energy given the country's vast untapped reserves of coal and hydropower.
- A growing awareness of the potential safety problems, particularly after the disaster at the Soviet Union's Chernobyl nuclear power complex and the widespread opposition to Daya Bay in Hong Kong. A serious shortage of highly skilled personnel to run and manage the plants underlined these concerns.

Peking, however, has decided to continue with a small nuclear power programme of its own, likely to require a comparatively small amount of foreign equipment and skills.

At Qinshan, 76 miles south of Shanghai, in the densely populated province of Zheijiang, the Chinese are building a 300MW reactor. This project was first proposed by the late Premier Zhou Enlai and construction is now in full swing. About US$30m of foreign equipment is likely to be imported.

The reactor vessel for Qinshan will be imported from Mitsubishi Heavy Industries of Japan, while steam turbines will be jointly manufactured with Westinghouse in Shanghai. The coolant pump is expected to come from KWU, and Framatome is likely to provide some other equipment.

According to Zhang Fenxing, vice minister for power, plans to build two other units totalling 1,000MW at Qinshan have been approved by Peking. But even if these go ahead in the near future, which must remain doubtful, they will largely be built by the Chinese. The US$50m or so Peking estimates this will require in imports of foreign equipment is little consolation for the rapid disappearance of a $1bn dream.

Richard Cowper

Coal

Transport problems cut expansion

A SINGLE sentence in China's new five-year plan underlines the extent to which the country's leaders have changed the policy on coal.

"The emphasis in construction will be placed in technological transformation, renovation and expansion of existing coal mines."

Gone are the days when new mines were opened as fast as possible, each larger than the last. China has discovered that it is not exploiting existing mines as effectively as possible, and that opening more mines will only worsen the stockpiling problems created by an inadequate rail and road transport system in many of the key areas.

China is the world's largest producer of coal, with estimated reserves of nearly 800bn tonnes of which between 100 and 200bn tonnes can be expected to be mined. Production has jumped in recent years and is expected to total 850m tonnes for 1986, suggesting that the target of 1bn tonnes by 1990 and 1.2bn tonnes by 2000 will be easily achieved.

The fact that the production target now looks so easily attainable has encouraged the Ministry of Coal Industry to sit back and take a more rational view about the future. It has long despaired over the country's failure to build enough rail links to enable coal to be shifted quickly around China, and crucially to the east coast ports for export.

The result is that the northern provinces like Shanxi sit on unlimited reserves of coal and mine enormous stockpiles which cannot be moved the several hundred kilometres to the heavily populated and industrialised provinces of the south. So many Chinese industries never operate at maximum capability because of the chronic energy shortage.

The ministry has therefore decided to consolidate existing mines and give priority to mining in the east where transport is better and the ports are close, even though the coal is more expensive to mine.

This has led to some dramatic changes. The ministry has greatly reduced plans for four of the five huge open-pit mines proposed in the last five-year plan, and you do not have to go far in Peking to find people urging that even the fifth should be halted. This is the Antaibao Number 1 Mine at Pingshuo in Shanxi Province being developed jointly with the Occidental Petroleum Corporation of the US.

The $650m project has taken five years of negotiations and involves a $475m loan led by Bank of America, Bank of China, Credit Lyonnais, Industrial Bank of Japan and the Royal Bank of Canada. This development will eventually produce 15m tonnes of open-cast coal a year, much of which is destined for the stockpile unless something miraculous happens to the Shanxi railroad system.

Of the other four the biggest casualty is the Junggar open-cast mine in Inner Mongolia. Bechtel, the US engineering company, has started work and $1.25bn of Japanese funding had been organised when the Ministry changed its plans largely because there appeared to be no chance of getting the requisite railroad built from Inner Mongolia to the south and south-east. Bechtel has pulled out and if the mine is eventually developed it will be well below the 35m tonnes capacity planned.

"They should call a halt to all such ventures today. Let's just get on and try to do what we've already started properly before we push on into these huge and hopeless projects," says a Peking expert on foreign investment in China.

Certainly the Ministry shares his view about Junggar and one of the other projects – Yuanbaoshan, also in Inner Mongolia, which also appears to have been abandoned.

Even Shanxi, the coal province, has suffered to some extent by the focus on the east. It produces a quarter of the country's annual output but has also had to call off some major projects because of transport problems. Four years were wasted in negotiating a World Bank loan for a mine at Chengzhuang which will not now be built. Instead the money will be used to improve existing mines, an arrangement which could have been concluded years earlier.

An additional reason for the new emphasis on eastern coal-mining sites close to the ports rather than large but inaccessible western mines is to try to boost foreign exchange earnings through exports. During the new Five-Year plan period to 1991, China will try to triple its coal exports.

In 1985 China exported only 7.75m tonnes—less than 1 per cent of the 850m tonnes produced—although 40m tonnes sat stockpiled in the province of Shanxi alone. And even these few export earnings were eroded by the need of some provinces to spend foreign exchange on importing coal from as far away as Australia.

The China National Coal Import and Export Corporation predicts exports will reach 10m tonnes by the end of 1986 and then rise by 5m tonnes a year throughout the five-year period. The corporation will set up 10 coal export bases to improve production quality and the eastern port of Qinhuangdao will be expanded so that it can handle 75m tonnes of coal a year compared to the present 40m tonnes.

However, world coal prices have been declining because of low oil prices and China faces very stiff competition in world coal markets although low production and labour costs give it an edge over most other producers except, perhaps, South Africa.

This is perhaps China's best hope for turning its huge coal reserves into big foreign currency earners while waiting for the internal infrastructure to be completed so domestic markets can be properly supplied.

The British Royal family no longer imports high-grade coal from Shanxi like Queen Victoria did but it still seems easier for the Chinese to get coals to Newcastle than to Guangdong.

Robin Pauley

Even Shanxi, the coal province, has suffered from a switch to mining in the east.

Electricity

Dark times for ice-cream

CANTONESE IN the rich southern province of Guangdong have developed a passion for American ice-cream and soft drinks. But at the height of this summer's season they were lucky not to be deprived of their favourite products. A series of electricity black-outs threatened to cut output at the Guangemei joint venture operated by Beatrice Foods of the US near the Cantonese port of Huangpo.

Fortunately an enterprising company executive saved the day by persuading a factory next door on a different power grid to cut its operations and sell a sizeable proportion of its electricity allowance.

In a province estimated to be at least 40 per cent short of electricity, such stories are by no means uncommon. Guangdong is China's leading exporter and produces about a quarter of the country's light industrial goods. But many of its factories are forced to work just three or four shifts a week, and some of these are at night. The province, home to 60m people, has an installed generating capacity of a mere 4,200 MW and it consumes per capita about one-sixteenth of the electricity used in nearby Hong Kong.

Elsewhere in China shortages can be almost as acute. Officials in Peking estimate that about one fifth of the country's industrial capacity is idle because of insufficient power. In November, Zhang Fengxiang, China's vice minister for Water Resources and Electric Power, said that in 1985 the shortfall countrywide was equivalent to 14,000 MW.

In private, Chinese planners say this may be much worse. If the restrictive regime of power rationing was lifted and individuals and factories were allowed to consume what they wanted, power demand would jump by more than 30 per cent overnight, they believe.

Peking is aware that this power shortfall is perhaps the largest drag on the country's economic performance. In the Sixth Five-Year Plan (1981-85), the Government set aside 66bn yuan, or one quarter of capital construction investment funds, for the development of electricity and other power sources. The result was that electricity generated grew by 38 per cent or 106bn kilowatt hours (kwh) to 460bn kwh last year.

In the current Five-Year Plan

Electricity Output

	million Kwh
1985	406,236
1984	373,644
1983	349,272
1982	327,684
1981	309,264
1980	300,624
1979	281,952

Source: UN Monthly Bulletin of Statistics

(1986-1990) introduced this year, power remains a top priority and the aim is to add a further 144bn kwh to the system by 1990. Generating capacity is planned to increase from about 88,000 MW now to 120,000 MW in the same period, an average addition of 6,800 MW a year or an average growth rate of about 7 per cent a year. The planned five-year increase of 34,000 MW is equivalent to more than half of the UK's total existing capacity.

Thermal power plants account for almost 80 per cent of the country's generating capacity. Though China has enormous hydro-power resources (estimated at 680,000 MW) the higher initial costs and the longer construction lead times means that about 70 per cent of the plants coming on stream over the next five years are expected to be coal-fired. The country's once-ambitious nuclear pogramme has been put on ice because of shortage of funds, lack of skills and fears about safety.

The continuing emphasis on coal and the need to push ahead fast has turned China into the world's largest market for imported thermal power plants. Mr Li Peng, the vice premier in charge of the country's energy programme says about a third of thermal plants are expected to be bought from abroad. In the last year China has signed £3.5bn worth of power contracts totalling 5,400 MW with Western and Japanese companies. All but one was thermal.

In addition, last month Vice-Minister Zhang announced that China had signed a SFr 980m countertrade deal with the Soviet Union for ten 210 MW thermal power-generating plants as part of a larger deal under which Moscow will provide a total of 6,800 MW over six years. Zhang also said that Peking had reached agreement in principle with Czechoslovakia, Poland, Hungary and Rumania for the purchase of a further 2,600 MW, also over six years.

The deals bring to 14,800 MW the total agreed this year, well above the 10,000 MW the Government planned to import during the Seventh Five-Year Plan period.

This is hardly good news for the 30 or so leading Western and Japanese companies which have been engaged in a sometimes cut-throat battle for a piece of the Chia market over the last few years. According to Mr William Empson of NEI, the UK company, many groups have pared prices to the bone to get a foothold.

Some have been prepared to lose money to get their first contract. "The reality in China is that we are already facing a price per kilowatt that is very punishing," he says.

Chinese officials, however, are understood to be still negotiating with Japanese and Western companies on four further thermal plants—at Yueyang in the province of Hunan, Dezhou in Shandong, Chonquing in Sichuan and one in the city of Shanghai. The plants are expected to cost a total of about US$1bn and generate 3,300 MW. Whether negotiations will be slowed remains unclear.

The Communist bloc deals are to be paid for in kind, probably in textiles and light industrial goods, so Peking may take the opportunity of speeding up its power programme. Even with this extra capacity, it is doubtful whether output can catch up with real untapped demand.

China is aiming to quadruple its industrial and agricultural output from 1980 to the end of the century and there has already been an explosion of demand for power-hungry imported and domestically produced refrigerators, television sets, washing machines and other consumer durables.

The average increase in power supply over the next couple of decades will need to be in the region of 9 per cent a year if these targets are to be met, well above the 7 per cent annual average increase over the last eight years. Even with the current ambitious power programme, China has to run just to keep still. Many fear the electricity energy gap may even widen.

Richard Cowper

Agriculture

Revolution in productivity

Rural Area Reforms

Peking's changes in the countryside have meant more food for all and riches for some. Sidelines and small businesses today generate wealth unimaginable ten years ago.

CHINESE agriculture has stood still for centuries. Dynasties and revolutions have come and gone but back-breaking manual labour and beasts of burden remain the mainstay.

"Remember as you fly over all those beautifully manicured plots and fields that it has all been done by hand, and just imagine the potential if it were mechanised, especially as the Chinese are basically good farmers," said a Western diplomat specialising in agricultural development.

Could it happen? "No," he replied.

Nevertheless, China's agricultural reforms since 1978, returning to household farming and individual responsibility rather than collective communes, has led to greatly improved manual agricultural productivity. The result is that 30 per cent of the peasant farm-labour has already been made redundant and the long-term plan is for 70 per cent to have left the land by the turn of the century.

The potential social upheaval caused by such a rapid transformation of a huge agricultural population into an urban or semi-urban industrial one has not escaped China's leaders. The policy to solve it by the widespread introduction of rural industries is probably the one initiative since the end of the Cultural Revolution which no longer raises any doubts over its ability to work. It is a major success.

In spite of the fact that China has a quarter of the world's population and most live a rural existence, it has only 7 per cent of the world's arable land. Put another way, the country has four times the population of the US with only half the arable land.

The basis of the revolution in China was that everyone should be clothed, housed and fed. It is an ambition that has been largely achieved, although this can be hard to judge as vast areas of the country remain closed to foreigners.

But feeding the population, which is now double the size it was when the Communists took power in 1949, is getting harder and harder. Bad weather and a move out of grain into cash crops by the newly independent farmers caused a large drop in grain production in 1985 when the total crop was only 380m tonnes compared with 407m in 1984.

There has been a drought this year, too, and although no official figures are available, most estimates for 1986 are for 390m to 395m tonnes, slightly better than last year but well short of national needs. To keep the shortfall in perspective, even the bad harvest of 1985 was 25 per cent up on 1978.

But it does suggest that China, having managed to become a marginal net exporter of grain, is likely to return to being a net importer.

While grain production is sluggish, other sectors of China's farming output are booming. Sugar, cotton and rapeseed are producing very large crops, creating storage problems in some areas. But it is the staple grain that matters most.

Central government has reacted swiftly to try to stimulate farmers into growing more grain but with only limited success. Chen Yun, a member of the standing committee of the Politburo, warned of social disorder unless grain production was sufficient to feed the entire 1bn population.

Grain acreage has been raised, extra subsidies applied to fertilisers, and soft rules introduced for bank loans for grain farmers who make supply contracts with the state. But the take-up of the concessions is reported to be low—too low for the target of raising grain output by 3.4 per cent a year to achieve 450m tonnes by 1990.

The new grain contracts include an agreement to buy 70 per cent of the contracted output at prices higher than the official purchasing price but lower than the market price. Once the contract grain has been supplied the farmer is free to grow whatever other crops he likes and sell them in the free market together with any grain above the contract amount.

But even this profit incentives is less attractive to many farmers than growing cash crops and selling them in the free market.

A new policy to help agriculture will be to take 1bn yuan a year each year until 1990 in tax from the thriving rural industries for agricultural support and investment.

This new tax is designed to make the farmers and rural industrial workers more interdependent and encourage the two sectors to work together more.

Robin Pauley

Rural Industry

Diversification raises incomes

RURAL INDUSTRIES have become a major economic force, contributing both to rising national gross domestic product, generally referred to as social product and raising sharply the average incomes and expectations of a large sector of the labour force which might otherwise be unemployed and potentially socially disruptive.

These industries have fixed assets of 75bn yuan and during 1985 paid nearly 14bn yuan in taxes. They have also started exporting, earning a crucial 4bn yuan in foreign currency. Many are engaged in industries related to agriculture—fruit, meat and vegetable processing and canning, for example. Others are involved in light industdy and crafts—electronics, textiles, furniture, shoes and clothing.

Equipment is often obsolete and working conditions poor but productivity is high and worker satisfaction bordering sometimes on the euphoric as income and material wealth rise in return for easier labour.

As the rural businesses expand they are expected to provide a further 50m jobs by 1990 followed by another 100m by 1995.

There are already more than 12m such businesses, some very primitive, employing nearly 70m people.

The industries have been so important, particularly in mopping up surplus labour, that the Government has decided to take a relaxed view about their impact on the overall economic strategy.

For example, there has been great concern about the extent to which the economy overheated in 1985. Rapid growth fuelled rising incomes which resulted in enhanced demand by consumers for imported goods, and high inflation. The tightening of policy, slowing of growth and restriction of credit has not applied to rural industries.

A sideline rural industry: drying lizards for Chinese medicine at a Lanzhou free market.

Since the squeeze began towards the end of 1985 the Agricultural Bank of China has entered the bond market for the first time, issuing well over 1bn yuan of bonds and using the funds to make special and soft loans to help rural industries expand and modernise.

Western diplomats, while full of praise for the achievements, are cautious about the future for the rural sector. "The agricultural reforms have been easy and the easy returns have now been achieved," warned one.

"Marginal returns will be increasingly difficult to get. Yet you still have more than 80 per cent of the population dependent on the rural sector either through agriculture or through the rural industries.

"If anything upsets food production or the viability of the industries you have a problem. So far, they are doing pretty well and the people are well satisfied. But if expectations fail to be met and particularly if China experiences any major food shortage it will look different.

Robin Pauley

Millionaire in a one-room house

Profile

Gao Jinlong

GAO JINLONG is about to buy a private car. This makes him a rather special and successful man in China, although his sense of responsibility to his village means he is also going to buy a second car—or more precisely a truck—for the village's communal use.

Gao's father was a humble cobbler in the poor agricultural village south of Taiyuan, and his son learned how to make shoes by watching and helping. He was never happy in the fields, and when China's reforms allowed individual private enterprise his thoughts turned back to the art of the cobblers' last.

In 1983 he joined two other families, each putting up 2,000 yuan savings with a 20,000 yuan bank loan to start a business. They set up in a row of primitive sheds and soon had villagers wanting to make extra cash after work in the fields, or during the winter months when the ground is frozen.

In 1983 they turned out 11,000 pairs of shoes, all of which sold instantly on Taiyuan market for 21 Yuan a pair. This year, with 60 families working in the factory, 40,000 pairs of shoes will be sold at 24 Yuan.

"I cannot make enough," he says, surrounded by workers sitting on low stools and tapping away as they gossip. They can earn up to 250 yuan a month.

"We shall make a profit of 120,000 yuan this year. Each of the three owner-families will take 12,000 yuan. The rest will go on new machines, reinvestment, the car so I can get the goods further afield and the truck for the village," Gao says.

He is a "Wan Yuan Hu" or "10,000 yuan family" which means he is very rich—the Chinese equivalent of a millionaire. "I would like to be a multi-millionaire," he says sitting in the grandest house in the village—although still consisting of only one room.

"My family has everything it wants—tv, refrigerator, a tape recorder, and this big house which we had built for 30,000 Yuan, compared to a normal cost for a house of 10,000 Yuan.

"But many people in this village are very poor and I would like them all to have better houses, so I want to earn more and help them," he says.

What about giving them the factory then when he retires? "Oh no. I have three children all studying. I shall give each of them 10,000 Yuan when they are grown up. Two are daughters so will leave the family when they marry.

"I shall give my part of the business to my son. He should become very rich," he says, beaming and stuffing handfuls of sweets into the pockets of his visitors as they leave.

Robin Pauley

Foreign Trade and Investment

China can modernise quickly only if it can import technology. This year it faced problems, with falling foreign investment and foreign exchange reserves and rising values of the Japanese Yen and the deutschmark. But it successfully boosted exports, improved its relations with its Japanese partner and extended contacts with Hongkong.

Foreign Trade

A large small step towards growth

EVERY YEAR the runway has been improved a little, the encroaching brushwood cut back and more landing lights added. But the foreign investment jumbo jet will still not land in China.

True, a number of light aircraft have come in, piloted by patriotic overseas Chinese from Hong Kong or the US, setting up hotels, restaurants and small manufacturing companies. In many parts of China, however, provincial officials have stopped scanning the sky for that big cargo of foreign capital they have been taught to expect.

They have come to learn that the foreigner will sell or lease machinery, often accepting the product of that machinery in exchange. He will sell his expertise under licence, but, by and large, he will not make a substantial equity commitment.

In the early days of the "open door," China's ambitions were frustrated by a pardonable lack of understanding of what the overseas investor needed—namely watertight contracts that gave him the real prospect of being able to make a return on his money and the ability to repatriate hard-currency profits. Today the Chinese know what investors want—they have been told by enough visiting delegations and resident diplomats. But a sharp fall in foreign exchange reserves has left them feeling unable to address the basic problem of foreign exchange convertibility.

Evidence of the Government's determination to tackle the other disincentives—mainly fiscal and bureaucratic—came in October with pubication of a further set of measures. It had become obvious that an apparent surge of investment last year was fading. In the first half of this year new investment fell by at least 20 per cent to $1.24bn compared with the previous half-year—the first fall since the door was opened. The number of contracts signed was down by a third, it was reported in October.

About $16bn has been committed since 1978, but according to the Government less than a third of joint ventures agreed are actually in business. In Guangdong, the southern province neighbouring Hong Kong and where half the foreign capital is found, a survey in June *showed that nearly three-quarters* of the ventures were having foreign exchange difficulties.

The October measures provide specific inducements to export-orientated and high-technology ventures, illustrating the Government's concern both to protect its foreign exchange reserves and to direct capital into industrial modernisation. Land-use fees will be harmonised and in some cases reduced. Ventures are exempt from some labour subsidies. They will get priority claim on utilities and pay the same for them as state enterprises. Their remitted profits will be tax exempt, and tax will be refunded on profits reinvested for at least five years.

Ventures selling more than 70 per cent of their goods abroad will have their profits tax halved and high-technology ventures will get a three-year extension to the period of concessionary tax rates.

Businessmen were told that the definition of "high technology" will be a matter of local interpretation, implying that the measures will be more generous in practice than they appear.

All ventures will get greater freedom over recruitment, wages and access to raw materials and funds. They will be able to appeal against what they consider unreasonable charges. Investment applications are supposed to be processed within three months.

More importantly, article 14 gives joint ventures the right, under supervision of foreign exchange control departments, to "mutually adjust their *foreign exchange surpluses and* deficiences among each other." According to He Chunlin, chairman of the state council group on foreign investment, such swaps could be initiated by the parties, at prices determined by themselves without government interference.

Prior permission from exchange control officials was not required, provided the transactions were reported afterwards.

Auctions of this kind are already going on "experimentally" in Shenzhen special economic zone next to Hong Kong. Shanghai also has a foreign exchange swap market: the US Foxboro joint venture has obtained exchange from local government and other companies in which there is foreign investment.

He Chunlin also assured investors that their ventures had the same legal status as local enterprises—a statement that has encouraged US diplomats to believe that America's long-sought investment treaty with China may at last be realisable.

China has signed 14 bilateral investment promotion and protection agreements with the West, including one with Britain in May this year. The UK-China agreement is said to guarantee repatriation of capital profits and fees, with delays in case of balance-of-payments difficulties, full and speedy compensation in the event of nationalisation, and settlement of disputes by international arbitration.

The Japanese, big traders but small investors in China, have about 100 true equity joint ventures out of a total of 211 contracts. A Japanese diplomat claimed that the ventures were gradually becoming profitable, but were still unable in the main to do what they really want—sell into the hugeChinese consumer market. He described the October measures as "a large small step."

Others say it will be only a small small step, until the authorities recognise that, in the early years at least, new ventures can only sell into the home market, that they must be able to count on converting their profits, and must have a sufficiently long guarantee of life to make the initial investment worthwhile. Although big multinationals are involved in China—IBM, Volkswagen, Pilkington, J. Reynolds, Philips—the big money is not.

The runway will have to be a lot firmer and longer before foreign investment in China can take off.

Christian Tyler

Exports

	1985 Volume	Change (%) Over 1984
Pigs	2.9m head	−5.8
Frozen pork	108,464 ton	8.9
Aquatic products	114,263 ton	−7.9
Grains	9.05m ton	183.7
Vegetables	497,796 ton	−4.5
Canned food	372,912 ton	−7.3
Peanuts, peanut kernels	158,153 ton	13.3
Raw silk	16,573 ton	23.6
Cotton	335,252 ton	77.2
Angora	4,319 ton	−45.1
Medicinal herbs	51,999	7.6
Coal	7.4m ton	5.3
Crude oil	29.7m ton	34.9
Oil products	6.07m ton	6.5
Edible plant oil	148,353 ton	13.6
Medicines	US$167.7m	17.0
Cotton yarn	147,852 ton	−12.2
Cotton cloth	1.59bn metres	−7.8
Polyester-cotton cloth	704bn metres	−2.1
Silk and satin	110bn metres	8.2
Carpets	4,710,821m²	−8.3
Hsehold pottery & porcelain	$US106.1m	−10.8
Tools (for manual and machines)	$US111.87m	−5.0
Garments	709,190m pcs	−37.9

Source: JETRO China Newsletter

Foreign Trade

	Jan-Sept '86 $ bn	% increase on 1985
Exports	21.4	14.8
Imports	30.4	5.1

Source: State Statistical Bureau

Imports

Item	1985 volume	Chge % over '84
Grains	5.83 m ton	−44.8
Edible sugar	1.84 m ton	50.3
Natural rubber	149,388 ton	−30.7
Timber	9.3 m m³	17.7
Pulp	524,414 ton	−18.1
Synthetic fibre for spinning	474,670 ton	75.8
Synthetic silk and yarn	277,501 ton	99.6
Wool	187,293 ton	92.5
Iron ore	9.31 m ton	56.3
Soda ash	1.034 m ton	21.5
Chem. fertiliser	7.5 m ton	−18.5
Farm insecticides	15,869 ton	−73.2
Paper and paper board	814,579 ton	−34.1
Cement	3.43 m ton	13.6
Rolled steel	19.298 m ton	56.9
Copper and copper alloy	346,985 ton	36.6
Aluminium and aluminium alloy	468,472 ton	85.4
Zinc and zinc alloy	252,579 ton	−9.7
Machine tools	12,676 ton	34.5
Electronic calculators	15.6 m ton	132.1
Copying machines	96,885 ton	247.1
Computers	66,706 set	—
TV sets	4.86 m sets	232.1
Household refrigerators	934,443	270.8
Automobiles	334,771	125.1
Ships	1,428	218.0

Source: JETRO China Newsletter

Foreign Investment

Losing struggle with imbalance

AFTER more than 12 months of tough import controls, China still appears to be losing the struggle with its foreign trade deficit.

The imbalance reached nearly $9bn in the first three quarters of 1986 (based on Customs figures) suggesting a figure of nearly $13bn for 1986 as a whole. This is not much less than the $14.9bn recorded the previous year.

Imports were up just over 5 per cent in volume terms, according to latest official figures. On the other side of the account, however, the news has been much less bleak than expected.

Despite suffering a serious loss of some $3bn in foreign earnings because of the fall in oil prices, China managed a 14.8 per cent rise in exports up to the third quarter, according to the state statistical bureau.

A currency devaluation in the summer of 15.8 per cent, following smaller adjustments of the Renminbi yuan, has probably helped. The evidence is that corporations have chosen to hold their export prices rather than go for extra volume and the higher return on overseas sales in Renminbi terms has encouraged enterprises to switch out of the home market.

There is further to go yet, according to Zheng Tuobin, Minister of Foreign Economic Relations and Trade (Mofert), who said the present exchange rate could not be maintained for a long time and there would certainly be more adjustments.

China's need to reduce its balance of payments deficit was further underlined last month when the International Monetary Fund approved a standby loan of $717m to help to pay for imports. The loan facility is for five years at a rate of 6 per cent.

The balance is helped by an estimated $2.2bn surplus in the first half on invisible trade, including gold sales. Remittances from abroad could be about $1bn, and arms sales (which do not appear in the official tables) may be worth between $1bn and $2bn a year.

Foreign exchange reserves are put at $10.4bn, of which by far the greater part is held by the Bank of China on behalf of local authorities and enterprises. Western economic analysts say they have difficulty in reconciling the official figures and are puzzled by the failure of the reserve figures to fall further. They assume that short-term borrowing is covering the gap.

Probably the gap is also being bridged by payment delays: China is losing its reputation as a strict housekeeper, according to French, US and other traders, who are beginning to complain that administrative excuses are being offered instead of prompt settlement.

The brunt of the clampdown on imports is being felt by Japan, China's largest trading partner and main supplier of vehicles and consumer electronics. The state of the bilateral balance remains a sensitive topic, despite the normalisation of political relations between the former enemies in 1978.

Japan registered a trade surplus of nearly $6bn last year, according to Japanese statistics. By the end of September the surplus was under $2.6bn and Japanese companies have been complaining of cancelled contracts. Their demands for compensation have not improved the trading atmosphere between the two countries.

But Japanese officials refuse to regard the latest import regime as a re-run of the early 1980s, when Japan showed three consecutive trade deficits. "We would not see this as a sudden change in the Chinese economy. The direction has already been set. It is just that the speed has slowed," one official said.

Western European countries and the US, as exporters mainly of machinery needed for China's industrial development, have been less affected by the controls. Indeed, the UK saw its exports to China increase by 30 per cent up to the third quarter.

Trade with the Soviet Union and Eastern Europe is said to have increased by more than half as China takes advantage of its clearing accounts with those countries in order to save on foreign exchange.

It is impossible to know whether the targets for this kind of trade are really being hit. One East European estimate suggests that 60-65 per cent of the quotas are actually filled, but there has been a visible increase in the number of Polish and Russian cars on the streets of Peking.

China has just signed a $600m barter contract with the Soviet Union for power generating equipment—the largest such agreement since the two big Communist nations fell out at the end of the 1950s. Other power-equipment deals have been signed with Eastern Europe, particularly Czechoslovakia.

On the export side of the ledger, China has managed to achieve an impressive increase in sales of textiles (now supplanting oil as the leading export commodity), grain and machinery.

Sales of textiles in the first eight months of 1986 were worth over $4bn. The surge may be explained by the rapid filling of quotas set by trading partners. It may also be checked by further action against imports in the US. Indeed, there is already talk of a serious deterioration in US-China trade relations if China's textiles are restricted again.

China could retaliate by stalling on all bilateral negotiations, including the protracted talks to conclude the investment protection agreement that the US is particularly anxious to get tied up.

The Trade Minister gave a clue to the problem when he *said he was anxious to see* exporters diversify their sales to the US market. "There is a huge market for our light industry there and we have the ability to fill it," he said.

He gave as examples sports shoes, climbing boots, machinery and electronic goods. "The US wants black-ad-white televisions," he said.

The same devolution of authority that has helped Chinese exporting companies respond to stimulus from the top may account for the authorities failure on the other side to stem the flood of imports.

For the present the books are being balanced, if precariously. But it is not plausible to suppose that Chinese industry can cover the export gap for long.

Christian Tyler

Japan trade

Partners kiss and make up

ON THE streets of Peking, billboards advertising Japanese products are back. Earlier this month Yasuhiro Nakasone, Japan's Prime Minister, was warmly welcomed in Peking by China's top party leaders.

This rapprochement may become significant to markets well beyond Asia. China wants Japan to teach it how to become a world-class exporter. Japan, China's largest trading partner, looks poised to help. It could take many years to achieve, but the determination and commitment on both sides is growing.

The Japanese call China "the last billion (person) market." Between 1983 and 1985, their exports to China more than doubled from $4.9bn to $12.5bn. Late last year, however, when China's foreign exchange reserves were vanishing at an alarming rate, it became fashionable again in Peking to attack the Japanese.

Deng Xiaoping, the Chinese party leader, said China's $6bn trade imbalance with Japan was "intolerable," suggesting that retaliatory measures be taken against the Japanese.

The outcry proved to be convenient; the central government began severely restricting imports of Japanese consumer and industrial goods, even when they were required for the smooth running of a factory production line.

This year Japan's trade surplus with China shrunk by about a third. Chinese officials are now complimentary about Nakasone's efforts to improve relations between the two countries.

The Chinese do not love the Japanese—war memories are still too strong. But today, they see the Japanese as the best potential investors and partners.

Other countries will also be invited to help build China's new industries, but Japan will be willing to lead this pack for a variety of important reasons.

Japanese banks are awash with funds and interest rates are at record lows. Knowledge about China is high, so Chinese who have recently won the right to raise money overseas will find a ready reception in Japan.

Faced with the strong appreciation of the yen, Japan's exporters are also rapidly increasing offshore production of basic consumer goods. Many are eyeing China as a potential production site, in spite of the relatively high entry costs and shortage of skilled labour.

The Japanese feel they cannot afford to ignore China, because of Japan's lack of natural resources and crowded domestic market. Most are now willing to invest in China for little or no return, hoping to gain the larger plum of one day selling to the entire Chinese market.

"To do business in China, we must be very patient," says the director of international operations for one of Japan's largest diversified electronics groups.

He and his domestic competitors know by heart all the big projects being considered in Peking and Shanghai, including power stations, steel mills, railway networks, telecommunications and port facilities.

Japan ranks third after Hong Kong and the US in terms of investment in China, with $350m accumulated investments by March this year. This was only $30m behind the Americans, however, and Japanese officials expect Japan to become number two by next year. Indeed, this year, Japanese companies invested $13bn abroad overall, so there is plenty of room for expansion.

A 160-person mission was sent from Japan to China in May this year producing 80 feasible joint-venture projects between Japan and China. China came up with another 100 projects. All the proposed companies would export to Japan, according to specific information on price and design supplied by the Japanese side.

Such a series of projects would be of great help to the Chinese, who still have a great deal to learn about product quality and overseas marketing. Some 60 Japanese companies, including all nine major trading groups such at Mitsui, Mitsubishi and C. Itoh are involved in the programme.

The establishment of a joint Japan/China investment bank is being considered, created with public and private funds, to provide cheap financing for Chinese joint ventures.

The Japanese government is considering whether to change the nature of its lending to China. Largely because of war reparations started after relations were normalised in the 1970s, Japan is China's largest supplier of aid.

Japan's Ex-Im Bank is also administering a large energy-related financing programme. It lent Y420bn in 1979 over five years, with a 15-year pay-back period, with interest rate of under 7 per cent. It is administering a Y580bn credit begun in late 1984 at 7-7½ per cent over 15 years.

Japan's private sector would like these funds untied from energy projects and available for project finance. The Ex-Im Bank is planning to recommend their policy change.

"We have abundant funds," says an official from the Ex-Im Bank in Peking. "We are also positive about China's ability to repay the loans."

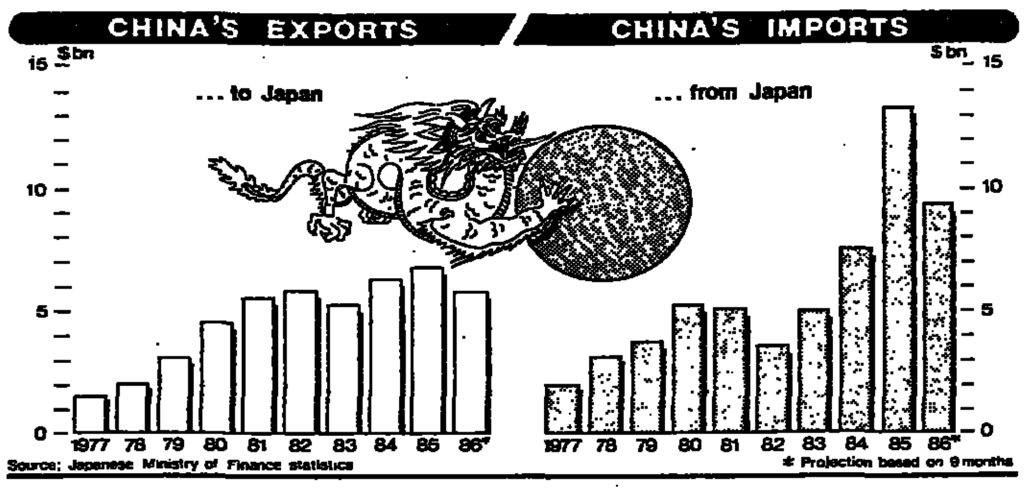
Japan will have to move carefully, however, because other nations will object if funds are offered at cut rates for Japanese projects. Further, the Japanese still have a serious public relations problem in China.

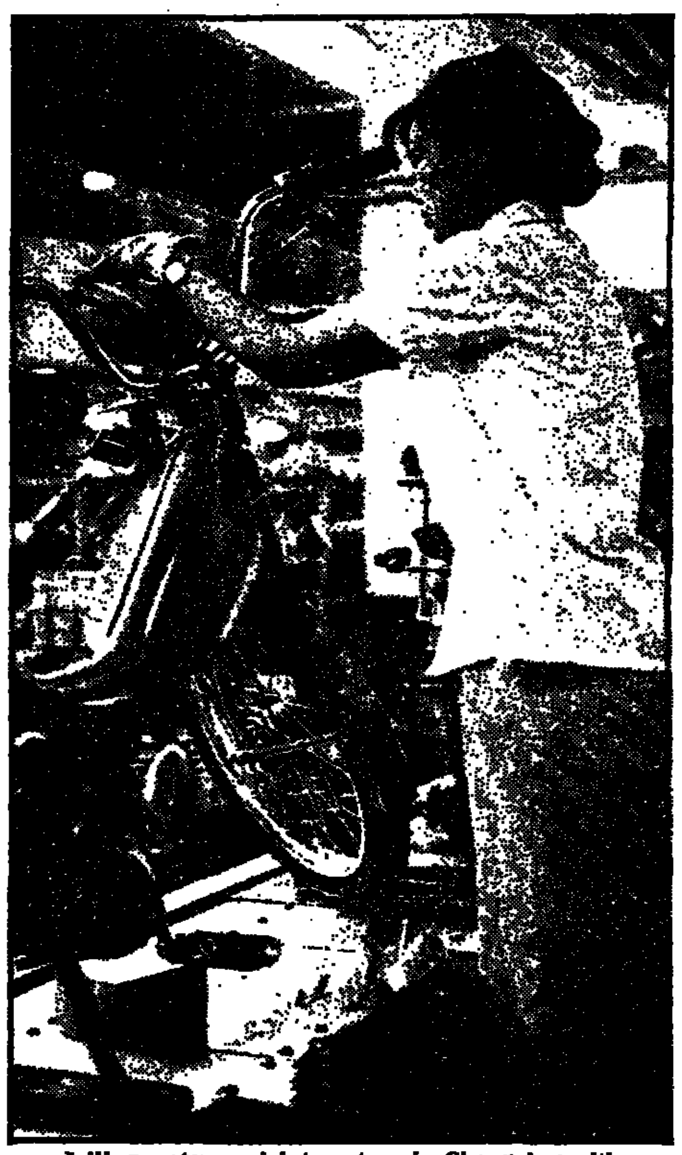
As Professor Zhao Fusan, Vice-President of the Chinese Academy of Social Sciences, explains: "Japan's invasion of China and the whole of Asia is still in our minds. Many still hold a degree of suspicion of what is behind Japan's ambitions and rapid economic growth.

"A lot of people think they are deliberately trying to keep China behind. But there are still (good) reasons to suspect that relations between Japan and China can grow."

That may well prove to be an understatement. South Korea's steel industry, which was based on Japanese technology, is now the strongest in the world. If China and Japan can work together, the results could be little short of staggering.

Carla Rapoport





Jailing motors, a joint venture in Chongqing with Honda of Japan

Building on patience

WHILE MOST foreign investment in China tailed off this year, one sector has held firm. Construction projects, mostly of hotels and office complexes, continued to be signed; and in most cases, a Japanese contractor's name could be found.

The names sound strange to those outside Japan, but over the next few years they should become more familiar. If patience and deep pockets mean anything in China, Japanese contractors will play a pivotal role in the country's infrastructure, energy and port developments over the next few decades.

Kumagai-Gumi, Japan's second largest contractor, with sales this year of around Y780bn ($4.8bn), is one of those names. Faced with sluggish growth at home, KG has been the most aggressive among Japanese contractors in seeking foreign business.

Thanks to years of experience in Hong Kong (KG was heavily involved in building Hong Kong's underground system), the company started seeking business in China a few years ago. This year, its contracts in China so far total about Y59bn, equivalent to last year's investment. This sum, while not overwhelming, makes KG the largest foreign contractor in China.

Like contractors everywhere, KG's experiences in China cut close to the heartbeat of the country. The reasons for their success, the problems they are encountering and their predictions for the future provide a valuable tool at assessing the business opportunities ahead in China. Their story is not entirely upbeat, but it does show that foreign companies can make headway in China.

Kumagai-Gumi has made some harsh business decisions about operating in China. The harshest is the recognition that it will make very little, if any, profit on any project for the first seven to 10 years of its life. And a number of the projects will revert to Chinese ownership after 10 years.

"Basically we invest in China not only for business reasons but for good relations with China," said Mr Minoru Tokioka, general manager, Beijing office of Kumagai-Gumi. "We hope China will never again be closed," he added.

Although he did not say so directly, the company has an obvious appreciation of the rich amount of contracting business which could be opening up.

Because of this commitment, KG has chosen projects with strong government support. In spite of the recent reforms, government support does not always stem from the profit motive or social welfare concerns. For example, KG's first joint-venture project in Peking, an amusement park, opens early next year. It will be the second amusement park for the city where indoor plumbing is still a luxury and schools and hospitals are in short supply.

A microcosm of this problem can best be found in Shanghai, which appears to be on the road to a mini-glut of luxury hotels. KG officials in Shanghai are openly concerned about the fact that 30,000 new hotel rooms are now under construction or planned to open in Shanghai within the next three years. The hotel projects received strong backing because of their potential for earning precious foreign exchange and boosting tourism.

Due to the parlous state of the city's water and electricity supplies, four of the new hotels are being built about 10 miles from the city's business centre. This could mean an hour's commuting into town given Shanghai's traffic congestion. Those being built in town will have to purify their own water, as 80 per cent of the city supply is unsafe to drink. Shanghai's taxi network is still rudimentary, while other tourist amenities stretch from basic to almost non-existent.

One of these projects is the Hotel Nikko Longbai, which KG started building earlier this year. The Y7.6bn luxury hotel has primarily been financed by Japanese investors, including Japan Air Lines, KG and the Industrial Bank of Japan. According to the hotel's project manager, Koji Abe, however, the investors had very little idea of what they were getting into when the project was agreed.

Abe is an energetic man, a chain-smoker who laughs easily. In discussing the problems he is facing with the hotel, he points to the sparse hairs on his head. "It's falling out and turning white because of this," he laughs.

The agreement to build the hotel was made in 1984, he says, without a drawing or a feasibility study. These came later but almost every day since then, he says, they are being revised.

The problems include:

- The inability to obtain ready-mixed concrete in China. All the cement is mixed on the premises. Modern construction equipment is also scarce.
- An almost total lack of specifications for local fire and safety regulations. KG uses Japanese specifications, requiring greater expense and imported goods.
- Strong pressure by the Chinese to use the best materials and systems from abroad. (The hotel reverts to Chinese ownership after 10 years.)
- Lengthy import procedures which take as much as a year.
- Heavy training costs for workers, none of whom have worked on a modern construction site.

"Each task is done by one person and labour is very cheap," says Abe. "But if they do not work, they get the money anyway, and if they work, they get bonus and double their salary." He says that the site has 600 workers, compared with 150 on a similar site in Hong Kong.

"It is a little crazy. But this is my business. I must follow orders," says Abe.

He doubts whether the hotel can make any profit in its 10 years of Japanese ownership. But as his colleagues in Peking point out, profit is not always the point in China. KG, it appears, is building relationships, as well as hotels.

Carla Rapoport

Profile

Kumagai — Gumi

Importing to Shanghai takes about one year according to Japanese construction company Kumagai-Gumi.

1. Submission by foreign company of the amount and details of required imported material to the joint-venture partner.

2. Joint-venture partner applies for a quota to import materials to Shanghai City Council for Finance and Trade.

3. City Council grants permission to joint venture partner for quota.

4. Shipping documents, invoices, packing list and import application submitted to City Council.

5. Acceptance, ratification and permission for application granted by City Council.

6. Application for import licence submitted to joint-venture company to Shanghai office of Beijing Central Agency for Finance and Trade.

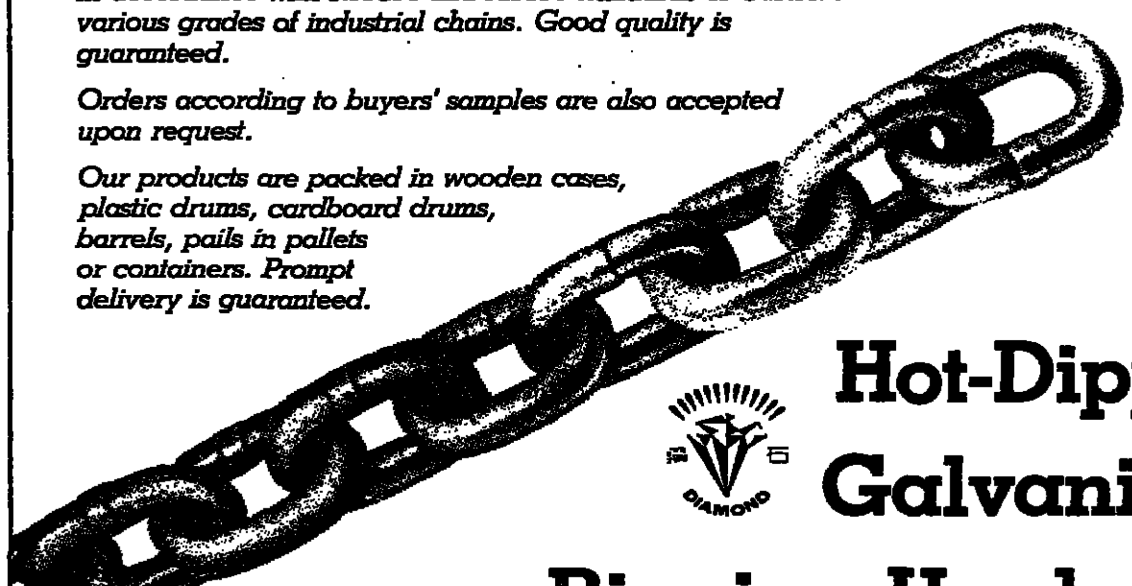
7. The agency in Beijing issues permit for import license.

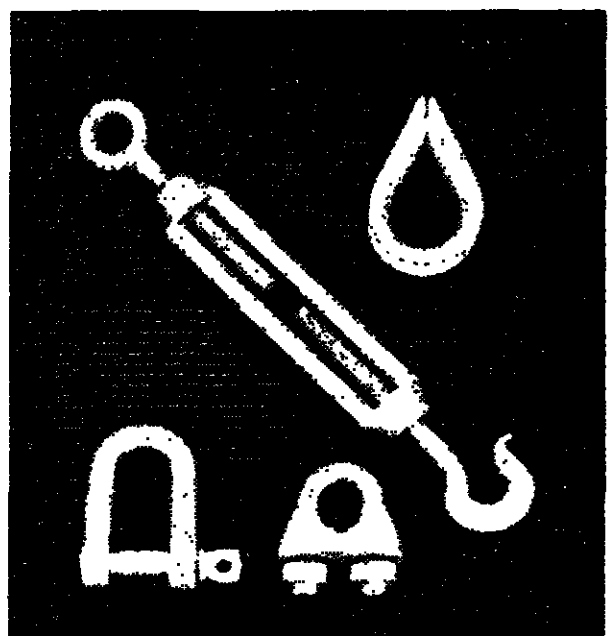
8. Application to tax bureau for exemption from taxation.

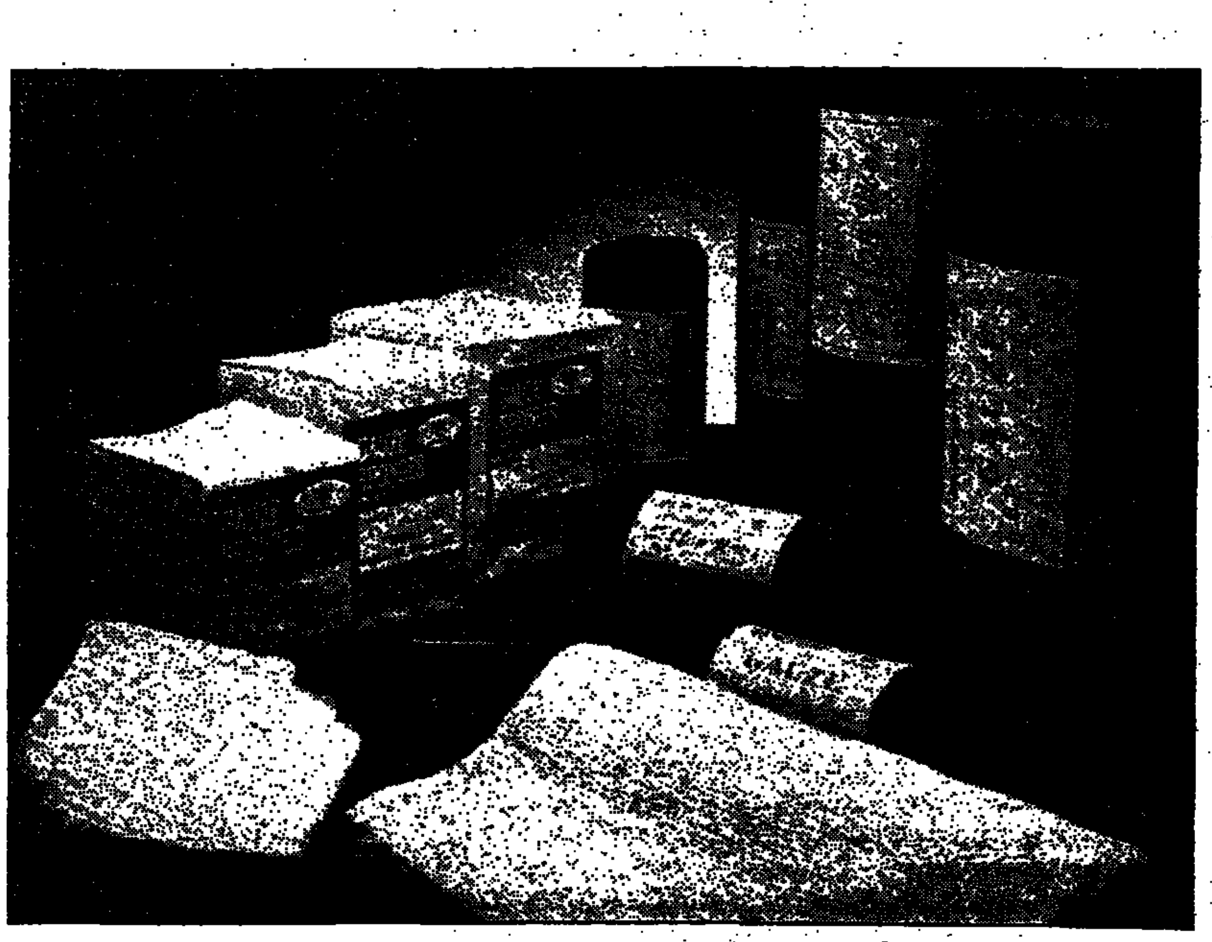
9. Exemption permit issued.

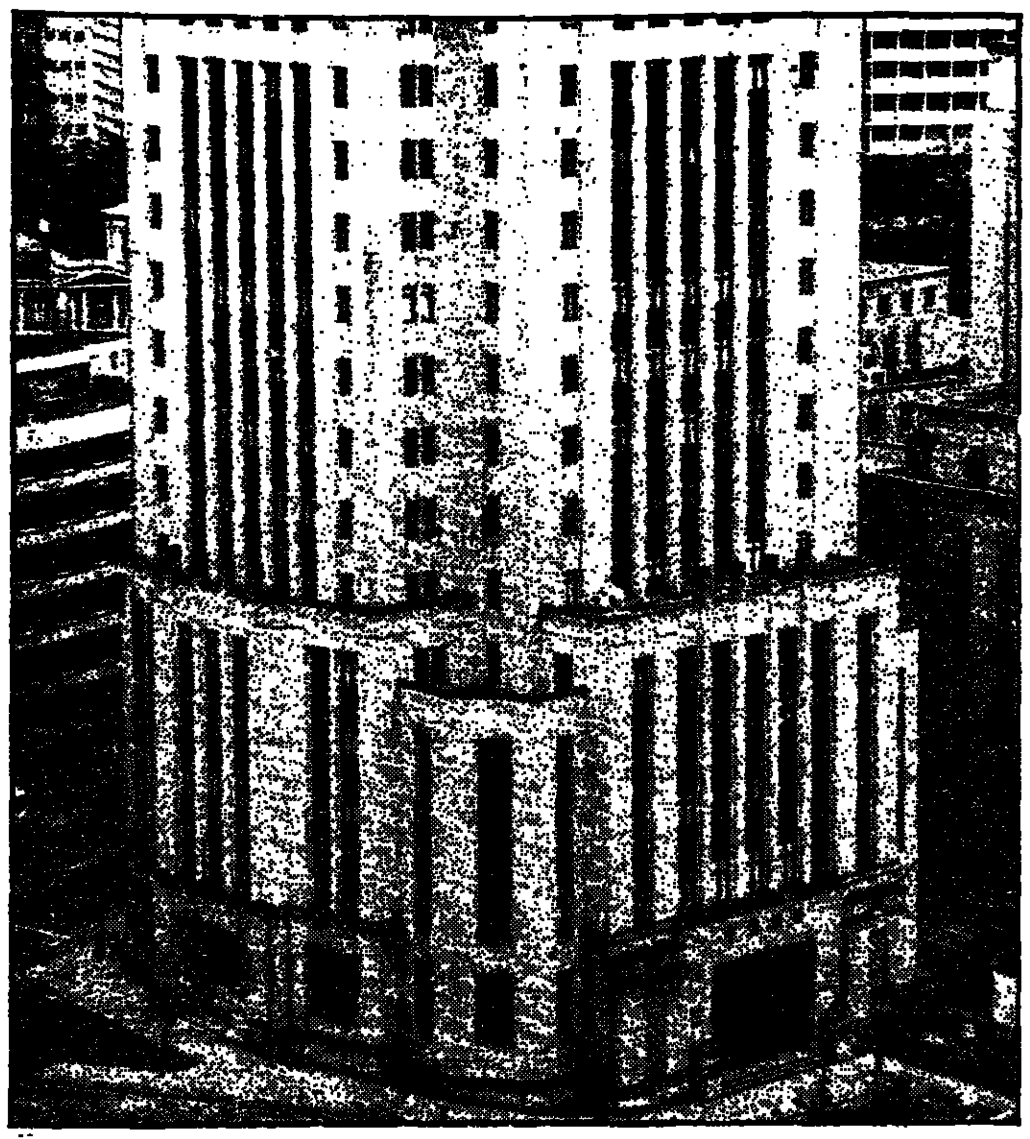
10. Joint-venture company checks the goods through customs.

11. Foreign company submits application verifying the commodity. Company takes possession of the goods.









The Bank of China building in Hong Kong

Major Trading Partners	1985 Export	Import $bn
Japan	5,962	14,150
Hongkong & Macao	7,196	4,686
US	2,254	4,915
EEC	2,171	5,788
UK	343	705
West Germany	707	2,225
France	214	693
Italy	282	873
Canada	227	1,119
Australia	182	1,077
ASEAN	2,764	1,077
Singapore	2,039	226
Middle East	551	168
Socialist Bloc	2,199	2,898
Soviet Union	968	949
Brazil	410	944
Total	26,460	40,240

Source: China Newsletter.

Hong Kong

The jitters start to ease

HONG KONG may not be the "jittery city" it has been claimed to be in recent months, but nor has it been restored to full confidence in a future that will be determined by Peking after 1997.

Officials in Hong Kong, London and Peking insist that great strides are being made. But for the thousands in Hong Kong who fear China's resumption of sovereignty over this anachronistic British enclave, little has been said to provide material comfort.

Gossip is still of the queues to emigrate, of substantial precautionary investment overseas, and of a reluctance to invest in manufacturing industry at home.

The emergence of political personalities like Martin Lee QC has provided a voice for many who were frightened or unable to air their anxieties. One British official in Hong Kong recently confided: "During the negotiations, Chinese officials were often very arrogant about Hong Kong. They felt they knew the mood there, and were confident that people were loyal to the Motherland.

"They now realise that it is much more complex. The Chinese are showing more sensitivity, and awareness of the mistrust. They realise that an eight-year track record of opening up to the outside world is not long enough."

There are widespread signs of China's growing sensitivity. Over the past year, no official has rattled sabres in public over the pace and direction of political reform. Such occurrences were frequent between 1982 and 1985, and always fomented confusion or anxiety.

Instead, Hong Kong has seen a steady flow of Chinese working groups who have bent over backwards to glean a wide spectrum of opinions, and resisted pressure to pontificate. The Law Drafting Group headed by Lu Ping that visited Hong Kong in January was an example.

One senior Chinese official in Hong Kong claimed: "We do not expect people in Hong Kong to like socialism—all we hope is that they will be good Chinese."

Cryptic though the message is, it illustrates Peking's awareness of mistrust, and may give encouragement to some who expect Peking to interfere in the territory's affairs.

Sceptics say Peking will never properly understand the "liberty without democracy" that has prevailed in Hong Kong. It is a liberty backed by Britain's democracy, if not its own, and by a dispassionate and meritocratic civil service — and many wonder how China will provide such backing after 1997.

Martin Lee asked: "Can we be sure our freedoms will be safeguarded by the National People's Congress (NPC) in China, which has a Communist system and where the Communist Party is in practice above the law?

"There are still many people in China who are imprisoned without trial, which is against the laws of China, yet questions are never asked in the NPC about such government abuses."

Pessimists can look to recent events and ask how they would be handled, in post-1997 Hong Kong. These include the annual inquisition of top Hong Kong Government officials by the territory's Director of Audit; the censure and fine handed out to the Commissioner of Police for the manner in which an arrest warrant was exercised; and the censure of a senior judge by an Appeal Court panel for having directed the views of a jury.

Even more evocative has been the fierce public debate over Hong Kong government acquiescence to China's Daya Bay nuclear power station, to be built 25 miles away. The outrage in Hong Kong triggered by the Chernobyl nuclear accident in the Soviet Union contrasts starkly with the quiescence in cities near Daya Bay on the Chinese side of the border.

Opponents are upset not just that their demands were overridden, but that careful news management in the mainland prevented the controversy from spilling over into China. They ask what this signals for Press freedom after 1997.

For the time being, the main focus of political controversy is the review next year of political reforms since 1984. This precedes local elections in 1988 and is intended to determine whether the territory's electorate wants to move towards a more full-blooded form of democracy, and how such changes could be achieved.

Hong Kong's once-consensual political leadership has been split on the issue. Conservatives argue that Western-style direct elections would open a Pandora's box. They say the Government would come under irresistible pressure to respond to populist demands that would hobble the territory's freewheeling economy.

They say that adversarial politics would lead to the creation of political parties, which would force China to allow the Communist Party to enter the political fray. Once this occurred, there would be no question who would win the political battles in the territory's governing bodies after 1997.

Advocates of greater democracy argue that this is likely to be the only true defence against encroachment by Peking after 1997. They attack those who defend the autocratic status quo as jeopardising this defence in an effort to preserve their existing privileges.

Martin Lee argued that the rule of law is about to be supplanted by the rule of the elite, an "oligarchy of the rich." He says that if Hong Kong's business leaders cannot trust the territory's ordinary people in a one-man one-vote political system, then ordinary people have no grounds to trust them. It would be a "government by the rich, of the rich, for the rich."

"I attach greater importance to the preservation of our freedoms than to the preservation of our prosperity because not everyone in Hong Kong has a share, nor the same share of our prosperity—but we all cherish our freedom, whether rich or poor," he said.

Such an argument from a member of Hong Kong's Legislative Council would have been heresy even two years ago. Officials defend the existing system that rewards effort and initiative handsomely at the price of providing minimal support or protection to the community's underprivileged by arguing that this encourages the flexibility and dynamism that has made Hong Kong prosperous.

Martin Lee's argument is flawed by the fact that Hong Kong's Government is already in effective terms an "oligarchy of the rich." Possible abuses have been checked by the dominant role played by a dispassionate civil service moulded around a British model. The more useful question might be how the integrity of this is to be preserved beyond 1997.

Officials in Peking incline to defend the status quo—no matter what the contradictions with Mao Zedong thought or Communist Party dogma—because they are fearful of killing a goose that they hope will lay golden eggs for them after 1997. For them, prosperity probably comes before freedom, and here they would part ways with the likes of Martin Lee.

For its own part, Peking is busy preparing the Basic Law—effectively the constitution that will put flesh on the bones of the Sino-British declaration. Fearful that its ideas will be preempted by political reforms under the existing colonial government, they have brought forward to 1988 the date when a first draft of the agreement will be ready.

Officials in Peking have claimed rather disingenuously that what the Hong Kong Government does in next year's political review has nothing to do with them, and has no bearing on their drafting process. Behind-the-scenes pressure has, nevertheless, led Hong Kong and British officials to talk about a need for "convergence" of plans.

Most energy is being consumed on the issue of elections, with a consensus emerging that about 25 per cent of legislative council members are likely to be elected directly in 1987. Ahead lie controversies over the election of a chief executive, who would take over the role of the present governor, and over the suggestion that Legislative Council members should have ministerial responsibilities.

Over the past year, as ideas of Hong Kong's post-1997 future have begun to take shape, so political activism in the territory has reached an unprecedented pitch. So far this has not spilled over into any major destabilising controversy—though this is perhaps more a result of luck than judgment.

Over the next two years, strewn with political reviews and increasing activity by Peking's law drafters, political interest and activity is likely to be heightened further. The risk of Hong Kong becoming a "jittery city" remains real.

David Dodwell

Ventures in Japan

Joint schemes generate frustration

THE LINOLEUM floors are cracked, the pictures on the walls are painted by the chairman's father, the meeting room is furnished with large chairs upholstered in imitation leather and covered with antimacassars.

An office in China? No, this it the heart of Takahashi Plastics, a major Japanese plastic modelling company, in the suburbs of Nagoya, Japan. However, it is also the head office of T. D. Mold Center, a Chinese joint venture in Japan.

The Chinese have very few overseas joint ventures, and T. D. Mold is believed to be the largest in Japan, with sales this year of just Y500m. In spite of its size, however, T. D. Mold offers a rare, if not very encouraging, glimpse at the problems of Chinese joint ventures.

The president of both the joint venture and Takahashi Plastics, Mr Shigetoshi Takahashi, is the forthright eldest grandson of a self-made man. During the Japanese occupation of Manchuria, his grandfather operated a factory in Dalian, a city in the south of what was then Manchuria. After the war, he and Takahashi's father built up the plastics business back home in Nagoya. The company now specialises in high-tech plastics, particularly ultra-slick motorcycle and automobile parts.

His grandson renewed the family's contacts in China during the last 10 years by making frequent trips to Dalian. A few years ago he was asked to form a plastics joint venture with the Dalian Second Bureau of Light Industry. After considering building the plant in China, the two sides decided on the Japanese location for two reasons: first to accelerate the transfer of technology to China, and second to ensure a speedy settlement of accounts on the foreign exchange earned and spent by the company.

The plan was to bring over 50 Chinese workers who would work alongside an equal number of Japanese making simple plastic parts for vacuum cleaners and television sets. These parts would be exported (mainly to China) or sold in Japan. Once trained, the Chinese workers would return to Dalian to train others.

Much of this plan has yet to be realised, however. The Japanese government would not issue work visas to Chinese, only short-term "trainee" visas. As a result, only seven are working in Japan. Further, Takahashi found that the Dalian workers, supplied free by his Chinese partner, were hard to train.

He admitted that he could not make these observations in China. But seated in his Nagoya office, he felt able to vent his frustrations.

Beyond the language problem (the trainees are meant to learn Japanese), Takahashi says attitude is the major stumbling block. "I don't think Chinese workers understand the market mechanism. I mean the simple principle that a good product sells well and a bad product does not.

"The Chinese (workers) think their products are as good as those in the US or Japan, so they don't have an incentive to make better products."

Even though T. D. Mold manages to pay dividends to its Chinese partner in precious foreign currencies, Mr Takahashi calls the venture a failure. This is partly because of the Japanese government failing to grant work visas and partly because of the difference between his perception of China and the real China, he says.

"We didn't know what we were dealing with when we started," he says. "Chinese workers are cheap, but their personal cost is only one factor. Even if all 50 workers had come as planned, we would not have been successful because of their low quality work."

The only success of the joint venture is some technology transfer. The company introduced the plastic volume control knob for televisions in China. Now this is manufactured in a Chinese plant near Dalian.

Having a Chinese partner, however, gives the company no added benefit when it comes to selling products to China. T. D. Mold's exports to China have stopped this year. Even though the company has a Chinese partner, it was unable to receive payments for its exports to China earlier this year.

"Now we sell in Japan or export to countries without this risk," Mr Takahashi says.

"China's intention is not so much to get products to China, but to earn foreign exchange. Officially, we are supposed to smooth technology transfer and export goods, but the bottom line is only foreign exchange," he says.

Longer-term, he is not overly optimistic. "The difference between China and other countries in their political and social systems is the greatest problem we have in terms of trade with China," he says.

Carla Rapoport

Hong Kong trade

Door opens to prosperity

UNDER Deng Xiaoping's open-door policy, no door could have been held more open than that to Hong Kong. In 1976 China ranked 46th among Hong Kong's trading partners: today, it ranks first.

The changes in China have had a potent impact on the British territory. It has sustained Hong Kong when other economies have suffered from stagnating world trade, re-asserted its importance as an *entrepot for China after decades* of growth based on local manufacturing activity, and provided the impetus for growth in banks, trading companies, and other service industries seeking opportunities on the Chinese mainland.

Between 1978 and 1985, Hong Kong's domestic exports to China have grown from HK$81m to HK$15.2bn—a compound growth rate of 111 per cent a year, putting China second only to the US as a buyer of local products.

China was always an important source of food and water to Hong Kong, but has soared as a *supplier of a wide range of consumer* and semi-manufactured goods. Exports to Hong Kong amounted to HK$6.9m when Deng Xiaoping creaked the economy's doors open. Last year, sales to the British territory amounted to HK$58.9bn, outstripping even Japan.

A more striking measure of China's re-emergence is the growth of *entrepot* trade through Hong Kong. Re-exports to China—a direct measure of the growth in China's imports—have risen from HK$214m in 1978 to HK$46bn last year. Chinese goods re-exported through Hong Kong amounted to HK$34.6bn last year, compared with HK$3.7bn in 1978.

The rapid depletion of foreign exchange reserves that prompted Peking into calling a sudden halt to many imports had a dampening effect on *entrepot* trade in the early part of this year. But this shows signs of *changing, with recent* trade statistics suggesting a sharp rise in domestic exports from Hong Kong, and in re-exports passing through Hong Kong into the mainland.

Mr Piers Jacobs, Hong Kong's financial secretary, said that while Hong Kong's exports to China had grown by 6 per cent in the first nine months of 1986 compared with the same period in 1985, the third quarter alone showed a 35 per cent leap in value terms that contrasts with real falls in the first half of the year.

It is not Hong Kong alone that has benefited from this trade growth.

Inside China, it is no accident that Guangdong province, which embraces Hong Kong on China's southern coast, has this year overtaken Shanghai and Liaoning to become China's leading exporter. The province's foreign sales are expected to amount to US$3.5bn—about 50 per cent above the 1985 total.

Virtually every township in the Pearl River Delta that forms Hong Kong's hinterland has major manufacturing investments from Hong Kong—all made since 1979. They rely for most of their export earnings on sales to Hong Kong, or processing fees for Hong Kong manufacturers.

Dongguan, for example, about *50 miles north of Hong Kong on* the main road to Guangzhou (Canton), boasts more than 1,600 factories employing more than

It is rarely realised just how deeply into China Hong Kong's economic roots stretch — or how important a stimulant the tiny British enclave is

100,000 workers which process goods supplied from Hong Kong. Processing fees last year earned the city US$68m, about 40 per cent of exports totalling US$168m.

It is rarely realised just how deeply into China that Hong Kong's economic roots stretch—or how important a stimulant the tiny British enclave is to inland provinces that have been *virtually cut off* from the outside world for 35 years.

The fertile provinces stretching along the banks of the Yangtze river, like Hubei, Anhui, Hunan, Jiangsu and Zhejiang, are all prominent exporters of food products to Hong Kong. Hubei, for example, earned US$45m last year from sales of food products to the British territory—about 10 per cent of the province's total foreign exchange earnings.

At a time when Peking is urging Chinese peasant farmers to diversify into cash-crop production, access to the Hong Kong market has provided an invaluable outlet.

While many have seen China's open door as a panacea for Hong Kong manufacturers, there has been an equal number who have suggested that rapid trade growth with the mainland is at best a mixed blessing. They have four main concerns:

- Double counting—a substantial proportion of the semi-finished goods being exported to China from Hong Kong are being re-exported days or weeks later after being processed in a mainland factory. Products that are Hong Kong exports to Europe or the US, are thus being double-counted—neither genuine exports to China, nor genuine Chinese exports to Hong Kong. Government officials claim to have no measure of the scale of this double-counting but it is substantial.
- Value-added—unlike buyers in the US market who buy from Hong Kong high value-added products such as garments, which provide generous profit margins, Chinese buyers tend to want cheaper products which offer lower profit margins. Gross export growth may be substantial, but the profitability of sales in China can be questionable.
- Technological sophistication—Hong Kong manufacturers, particularly those in the electronics sector, have been able to fall back on steady sales of low-technology products into China. As a result, they have not been forced to upgrade technology in the way that producers in South Korea or Taiwan have been forced to do to keep their share of the competitive US market. What has been a short-term boon may prove in the longer term to leave Hong Kong two or three critical years behind its most important competitors.
- Entrepot trade—many are concerned that buoyancy from rapid growth of service industries linked with growing trade with China will disguise stagnation or decline in the territory's manufacturing *sector. They* argue that if manufacturing industries atrophy, then the service industries that are now expanding so rapidly will have no solid foundation from which to build, and will wither as banks, trading companies and the like move elsewhere.

None of these worries should be built up to suggest that Hong Kong should once again turn its back to mainland China. With 1997 fast approaching, this would be an absurd aim anyway.

But if the worries are taken into account, and Hong Kong's manufacturing sector can remain as dynamic as it has for the past two decades, then the territory is likely to remain a potent force in world trade in its own right, as well as an invaluable conduit for China's export-led modernisation plans.

David Dodwell

Vietnamese refugees who make up the fishing community at Xingang

Refugees

Vietnamese fishermen find safe haven

THE BUSTLING port of Xingang on the Beibu Golf provides the perfect example of how a long-established fishing community has found prosperity by turning to exports.

According to Pang Guanyen, deputy head of the Xingang council, the township's annual income per capita of 807 yuan is more than 20 per cent heigher than for Guangxi province as a whole a consideravble number of the fishing community's unhabitants are earning 2,000 yuan a year and one fishermen claimed to have earned 20,000 yuan plus last year - a fortune by Guangxi standaeds.

Pang claims that every boat in the harbour is owned by a fishing family from Xingang. The community's success is doubly remarkable, because 10 years ago neither the port nor the community existed and not a single one of its members was living in China.

All were refuguees who fled from north Vietnam in 1978 and 1979 when Hanoi initiated programmes against overseas Chinese. Some crossed the border into Yunnan and Guangxi provinces on foot, but those with access to boats made for the port of Behai, less than 125 miles from the north coast of Vietnam, and a stone's throw from Xingang.

Xingang is China's largest and most prosperous refugee settlement. Most of them were already fishermen, or came from a fishing background. Many brought their own boats. To leave by sea would be easy, but not one of them has tried to run away, says Raymond Hall, of the United Nations High Commission for refugees in Peking.

The township's success was recently acknowledged by Deng Xiaoping, China's paramount leader, when he paid a brief visit to the community, and the port has even attracted Vietnamese refugees settled elsewhere.

Xingang is not typical, however, of China's Indochinese refugee settlements. Scattered over 100 locations in the provinces of Gwangxi, Guangdong, Yunan and Fujian, many of the 283,000 refugees who fled to China are living at subsistence levels on state farms and forestry enterprises.

Ten years after they arrived, about 20 per cent of China's total Indochina refugee population — an estimated 56,000 — have been unable or unwilling to adapt to the rigours of life in the Chinese countryside, brawling, drunkeness and refusal to work is typical.

According to Mr. Hall problems arise when those used to a life of petty trading or working in industry are called on to engage in agricultural production, or when they have relatives in the West who send them remittances, often greater than their own salaries. In such cases the authorities have given up trying to make them grow rice.

Life is made more difficult because many refugees have a large number of dependents in a China that has for some time geared itself to a two-child system in the countryside. Some refugees had lived in Vietnam for as long as 13 generations and speak no Chinese. A minority want to go back home.

But for the 80 per cent estimated to have adapted Peking and the United Nations have done much to alleviate the difficult transition.

Over the last eight years, Peking claims to have spent US$650m on providing training, jobs, housing and food for the refugees, while the UN and the World Food Programme have spent a further $100m over the same period. This year alone, Peking is, to provide $26m in living subsidies, while the UN's budget is $2m many of the state farms where refugees are housed are losing money, ranging from 600,000 yuan to 200,000 yuan a year, and these losses seem set to continue for some time

This massive injection of cash into the world's second largest Indochina refugee programme has been a considerable financial burden on China and has been little recognised in the West, according to Mr. Hall, who says that many of the refugees are now beginning to adapt.

Peking's decision to shift to a family farming responsibility system, to encourage private trading, and a sharp increase in agricultural sideline and processing industries, are likely to benefit a population which has generally not taken to agricultural labouring.

The future for the majority of China's refugees seems rather better than the 4,300 living in closed camps in Hong Kong, with little prospect of being found a home in the west.

Richard Cowper

Investment in Hong Kong

Blind eye turned to rising tide

ASK ANY BANKER, economist or China specialist in Hong Kong how much China has invested in the British territory, and the politest response you are likely to get is a perplexed shrug.

All know it is colossal—just as they know that investment by Hong Kong Chinese inside the mainland accounts for the lion's share of all foreign investment in China. But the task of putting a figure to it seems to have baffled even those who have tried in earnest.

There are strong political reasons for turning a blind eye to mainland investments in Hong Kong. What Peking would describe as underpinning "stability and prosperity," others less sanguine about Peking's assumption of sovereignty in 1997 would see as a clandestine Communist "takeover."

A Hong Kong Government study of foreign investment in the territory's manufacturing industry in 1985 tantalisingly lists investments from 36 countries ranging from the US and Japan to Afghanistan and the Virgin Islands—but excludes any mention of China.

Government officials admitted that it had not been considered timely to take a magnifying glass to China's investments, though the official argument has always been that China's presence is so diffuse that it defies measure.

Diffuse or not, there are numerous symptoms of an increasing mainland presence in the territory. The Hong Kong General Chamber of Commerce recently estimated that 140 mainland enterprises had an official presence.

Companies like Conic, once Hong Kong's largest electronics manufacturer, have been taken over by mainland interests. Highly publicised sorties into the local property market—like the abortive HK$1bn deal by Mr Wang Guangying's Peking-backed trading group Everbright Industrial to buy a residential property development from International City Holdings, have illustrated that it is not just Hong Kong entrepreneurs who like to put capital into bricks and mortar.

Guangdong Enterprises, perhaps the most dynamic of more than 50 provincially-linked trading companies in Hong Kong, also complements its export operations with investment in both property and manufacturing industry in the territory.

More recently, the rescue of Kah Wah Bank by the China International Trust and Investment Corporation (CITIC), and the role played by Mr Henry Fok providing US$120m (thought to be Chinese capital) to assist in the rescue of the C. H. Tung shipping group, shows that Peking is willing to pay hard cash to prevent undue erosion of confidence in the British territory.

Other clear evidence of China's growing impact on the economy is seen in the expansion plans of the 13 "sister banks" that operate under the umbrella of the Bank of China. Almost all of the banks have increased their capital base in recent months. Those that are locally incorporated have begun to lay plans for listings on the local stock exchange. All have been expanding their branch networks at a time when most banks are being forced by severe competition to reduce their retail banking presence.

The Bank of China group admits to having made small industrial loans in Hong Kong amounting to HK$2.4bn in 1985—up from HK$1bn in 1983. In addition, it has lent HK$10bn since 1984 to Hong Kong businessmen for investment in China.

The group — called the *zhongying jituan* in Chinese — is also turning with increasing freqency to Hong Kong's embryonic capital market to raise funds for China's development. "Sisters" like the Bank of Communications is trying to build up an expertise in merchant banking and capital markets operations, and it is widely believed that the market is unlikely to acquire any real depth unless it develops to become not just Hong Kong's but China's capital market.

China resources, the general trading agency in Hong Kong for Peking's Minister of Foreign Economic Relations and Trade, also admits to substantial investment in electronics, packaging, warehousing, and retailing businesses in Hong Kong, as well as ownership of restaurants and supermarkets.

Mr Tong Zhiguang, China Resources president, said recently: "We will base ourselves in Hong Kong, rely on the abundant resources of the mainland, and move into the international arena."

The group employs 5,600 staff, has 26 operating subsidiaries, more than 100 joint ventures, and says it will handle trade worth HK$7bn this year. Since 1985, Mr Tong says the corporation has invested HK$600m of its earnings in manufacturing ventures on the mainland, but makes no specific mention of similar investments in Hong Kong.

China Merchants' Steam Navigation, backed by Peking's Ministry of Communications, also has substantial Hong Kong investments—including a significant holding in one of the territory's smaller banks—but has been concentrating more of its resources on the development of the nearby Zhuhai Special Economic Zone.

David Dodwell

A Hong Kong toy factory joint venture in Shenzeu special zone

Hong Kong investment in China

Province feels impact of potent neighbour

TRACKING Hong Kong's investments inside China is equally fraught, though it is generally acknowledged that Hong Kong Chinese entrepreneurs account for more than 60 per cent of foreign investment in dollar terms and almost 80 per cent in terms of the number of projects agreed. Officials in Peking say total investment commitments since 1979 amounts to US$17.4bn.

It is in Guangdong that Hong Kong's impact is most potent. Dongguan, a typical city in the Pearl River Delta that forms Hong Kong's hinterland, boasts 1,600 factories involved in processing for Hong Kong companies. More than 1,000 managers work in the city from Monday to Friday, and Hong Kong-linked ventures account for more than 100,000 jobs in the city. Earnings from processing fees last year amounted to US$68m.

Municipalities like Foshan and Taishan can make similar claims. It is estimated that a total 15,000 factories in Guangdong are manufacturing for Hong Kong companies. They account for more than 450,000 jobs, and foreign exchange earnings of more than US$300m. As a measure of this trade, more than 7,000 lorries a day are crossing Hong Kong's land border with China laden with merchandise. A decade ago, the figure was more likely to be 7,000 a year.

In addition to Guangdong, inland provinces much further from Hong Kong count the territory as their single most important investor. Figures recently gleaned by foreign bankers from various banking sources inside China show Hong Kong investors accounting for the majority of equity joint ventures not just in nearby Guangdong, Fujian and Guangxi, but in more distanct areas like Shanghai, Tianjin, Peking and Liaoning.

In addition to these investments, an increasing number of China's *huaqiao*, or overseas Chinese, are making donations to their ancestral villages or townships—many from Hong Kong. The recent US$20m contribution by shipping and property billionaire Sir Yue-Kong Pao towards a university in his hometown of Ningbo in Zhejiang is but one extreme example of this trend.

Guangdong, again the main beneficiary of such donations or remittances because it accounts for about 70 per cent of the estimated 30m Chinese living outside mainland China, is understood to have gained 2,000 schools, 100 hospitals, scores of bridges, and hundreds of miles of road.

Just as Guangdong has been the main beneficiary of investment from Hong Kong, so it has been the first to feel the cold winds of foreign disenchantment as joint ventures have run into difficulties. Provincial officials revealed in August that 70 per cent of all ventures in Guangdong faced difficulties balancing their foreign exchange. Equally disconcerting was the revelation that 90 per cent of foreign exchange being generated by joint ventures was coming not from exports, but from domestic sales.

The thousands of "compatriots" from Hong Kong, who still are the most probable future investors in Guangdong, were leaving the authorities in no doubt about the dim view they take of the current investment climate. If latest investment figures are any guide, these "compatriots" have voted with their feet. Foreign investment commitments for the first nine months of 1986 were US$2.4bn—some 42 per cent down on commitments during the same period in 1985.

It is probably no accident that it was in Guangdong that details emerged of the new "22-point incentive plan" aimed at improving the flagging investment flow. A verdict has yet to be given, but it is almost certain that Hong Kong businessmen will play a large part in determining that verdict.

David Dodwell

CHINA

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- ☐ Silk

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- ☐ Animal By-products
- ☐ Cereals, Oils & Foodstuffs
- ☐ Chemicals
- ☐ Light Industrial Products
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- ☐ Silk
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Ningxia

Silk road into a third world

AS EGYPT depends on the Nile, so Ningxia, China's smallest province, depends on the Yellow River. The parallel is closer yet, for a third of Ningxia's 4.1m people are Moslems, some claiming descent from Arab traders who came over the Silk Road or by sea from 700 to 1300 AD. The "autonomous" region has in recent years resumed commercial ties with the Arab world.

Bounded by the stony deserts of Inner Mongolia to the north, a man-made oasis of almost 2m square miles criss-crossed by irrigation channels dating back 2,000 years, provides Ningxia with an exportable surplus of rice and grain in spite of the harsh climate.

In the mountainous south the Hui Moslems are the impoverished majority, with a yearly income per head of only 130 yuan (£26), barely twice the monthly wage of city dwellers in other parts of China, and less than a third that of Ningxia's own river valley farmers.

Partly because of embarrassment about the poverty Ningxia was closed to foreigners until three years ago. According to an English journalist who visited the area recently, former mountain dwellers tell gruesome tales of incest and cannibalism.

Today the regional authorities are proud of their efforts to improve the lot of the poorest Hui, and can demonstrate that repression of the Moslems is a thing of the past. The Moslems rebelled in 1938-42 against the Chinese Nationalists, who they say were bent on genocide. During the Cultural Revolution both Hui and Han (Chinese) suffered, but most of the 1,800 mosques were destroyed, or turned into offices, factories or apartments.

"There were no services for 10 years," said Haji Ismail Mu Yilan, venerable chairman of the region's Islamic Association. "But our beliefs stayed the same."

The call to prayer may have been silenced, but more than 2,000 mosques are being rebuilt and Moslems can take Friday off to worship. The state permits each Moslem only one wife, but two or three children against the one allowed to Chinese. There are separate Moslem restaurants and schools and a college for the study of the Koran funded by the Islamic Development Bank.

In theory, Hui could eventually outnumber Chinese: in practice, say the Hajis, they will voluntarily limit their families as living standards rise.

The standard of living has certainly gone up for one Hui family in Wuzhong county south of the capital Yinchuan. Ma Jingsho is a farmer turned building contractor who with five of his six children lives in a new compound in a village of mud houses. Ma (a common name among Hui, said to be an abbreviation of the Prophet's own) is the egregiously rich "peasant" that visitors are taken to see as proof that the new policies work. He claims he had a net income of 40,000 yuan last year (£8,000). The people across the road make about 500 yuan (£100).

"China is part of the Third World, and we are part of China's Third World," said Yang Huiyung, a woman vice-chairman (governor). Yet Ningxia claims to be growing at 8.5 per cent a year, faster than the average for China as a whole, helped by its Arab connections.

Kuwait is on the point of lending $15m at a preferential rate of interest for a 1.6bn yuan steel-reinforcing alloys plant in Yinchuan. Egypt's state bank has set up a joint investment trust company capitalised at $40m and due to start up next year. The Islamic Development Bank is funding two institutes, and Ningxia has sent 1,000 workers to Egypt and North Yemen for construction projects.

The region has United Nations support for forestry, agriculture and technical research, while the World Bank has provided grants for the university and for an "Open University" of the air.

As well as developing technical co-operation with the four other minority regions of the North-west, Ningxia has been helped along by its eastern neighbours.

For example, Shanghai is reportedly putting up 80m yuan to develop the aluminium smelter. Present output of 32,000 tonnes a year is due to be raised to 50,000 tonnes and later by a further 100,000 tonnes. Zhejiang province is involved in a venture for producing Moslem food, Guangdong province in outdoor shoes and Beijing in fashion shoes. All these products will be exported back to the markets of the east.

The national Government is said to have provided 8.2bn yuan this year, compared with 7.5bn yuan last year for projects that will benefit the country as a whole. Investment by the region for its own improvement is less than half that.

Nevertheless, according to officials, industrial output, at 25bn yuan this year, is already two-and-a-half times the value of agricultural output. Heavy industry accounts for the bulk of it. The chief industry is chemicals—ammonia, rubber and fertilisers. About 12m tonnes a year of coal is mined from deposits that are said to be the fifth largest in the country.

Most of the region's 700MW of installed electricity generating capacity is based on thermal power stations: the main hydroelectric scheme is further upriver in Qinghai province. Another 20MW is to be added next year, which will allow Ningxia to sell electricity to the national grid for the first time.

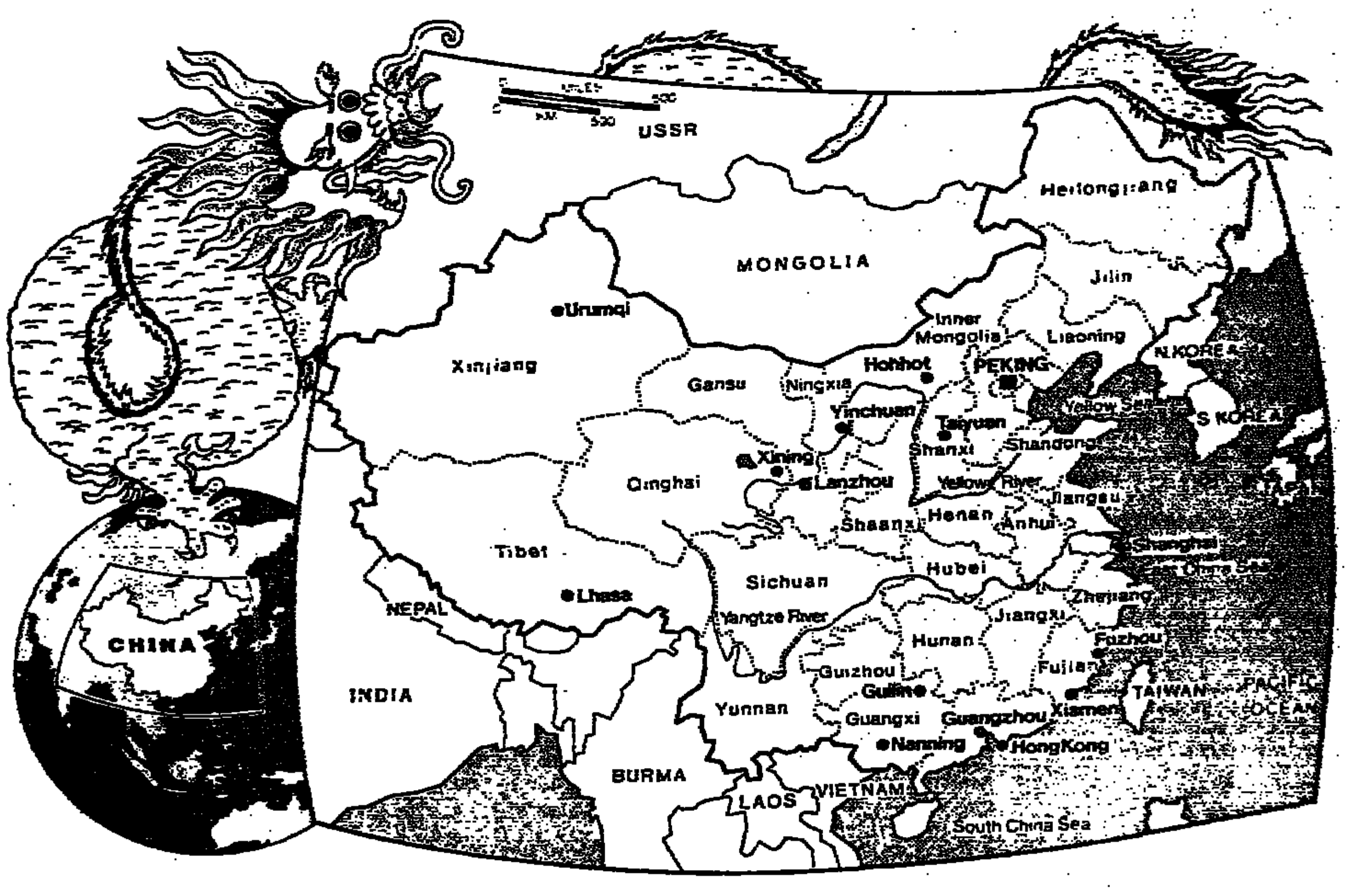
For all their disadvantages, the people of Ningxia appear cheerful and versatile. The capital is grandiose for its size, but pollution-free. In the main square with its Ming Dynasty pavilion ("little Tiananmen square," they call it) old Hui street traders wearing white skull-caps and wispy grey beards are jostled by teenagers more fashionably-dressed than in Peking.

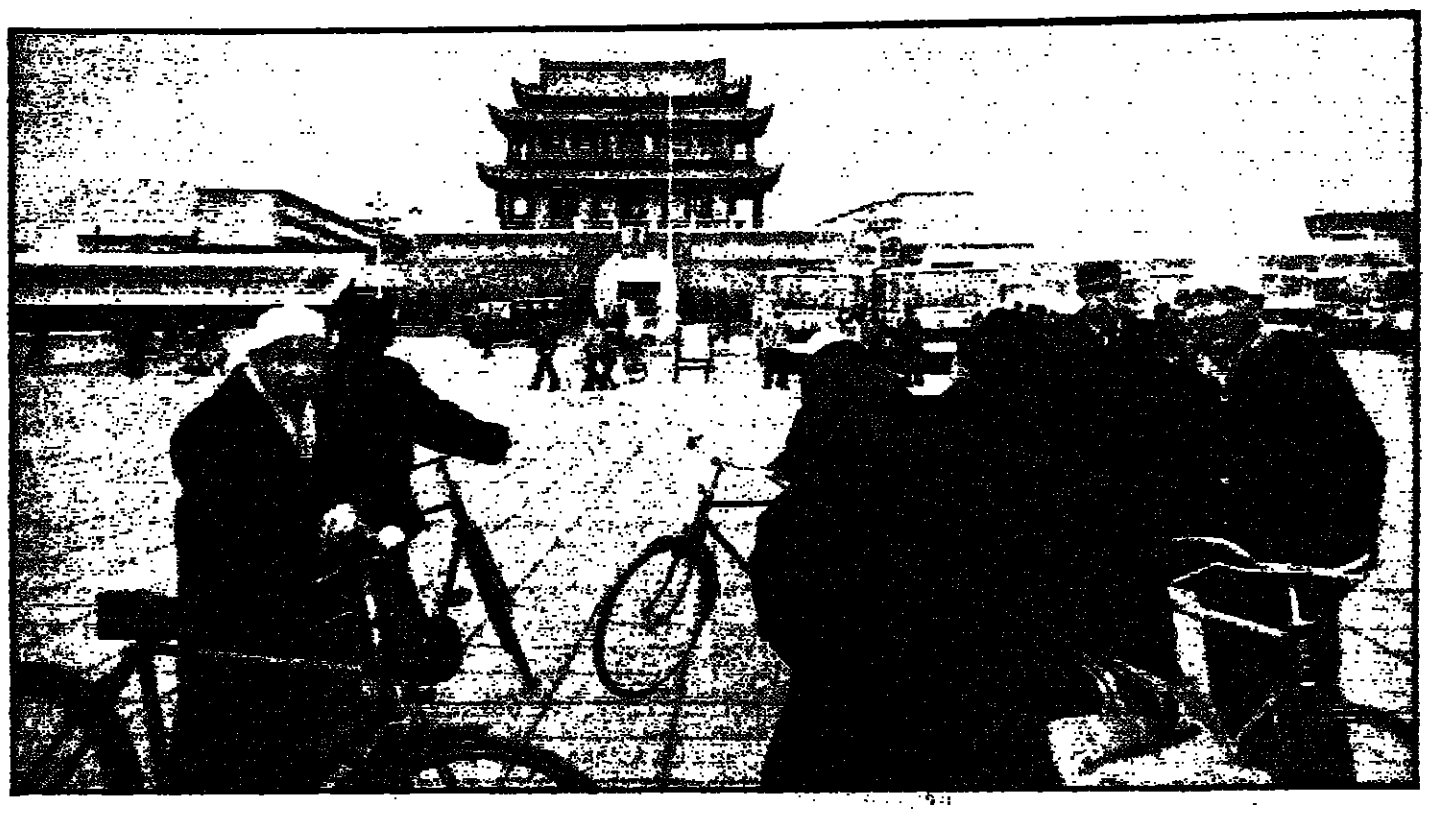
Even the peasants have made profit out of hardship: the black moss that they used to scrape up for extra protein is now sold as a tonic to Chinese all over the world, merely because its vegetable name has a second meaning in Chinese—"good fortune."

Christian Tyler

Modernisation in the Provinces

China's vast territory takes in delta, mountain, plain and desert, all with sharply differing problems. In this section FT correspondents look at a range of provinces and cities to see how local officials carry out Deng's economic reform and whether their actions are proving effective.





Hui Moslems (above and top left) in Yinchuan, capital of Ningxia.


Young monks outside Ta'ersi monastery near Xining.

Qinghai

Wild West of the East

WHEN CAMEL hump, yak meat, gazelle and mutton all appear on the same menu, you know you're in Qinghai (pronounced Chinghai). On the roof of the world next to Tibet, it supports only 4m people and more than 20m livestock. From its mountains and empty grassland rise two of the world's greatest rivers, the Yangtse and the Yellow River.

This is China's wild west. "No one should carry a gun without government permission," say notices in the only passable hotel in Xining, the provincial capital. Forty per cent of the province's population are not Han, or ethnic, Chinese, but Tibetan, Hui and other minorities.

Like Tibet, it is effectively a Chinese colony. In any gathering of senior officials, there will scarcely be one who was born in the province.

The governor of the province is Han, most of the party top brass is Han, and the Xining city general secretary, Yang Boying, admitted that 75 per cent of senior provincial officials came from other parts of China. Xining's most important factory, the Qinghai No. 1 Machine Tool Plant, was brought from Shanghai, staff and workers included, in the 1960s.

Qinghai, nicknamed "China's Siberia," is the site of many of the country's labour reform camps, and some of the Han settlers are thought to be ex-prisoners with no hope of a job in the east.

Religion practised by the Qinghai minorities is a strong bar to promotion. "We Chinese don't think you can believe in two things at once—Marxism and religion," said Du Baoxia, the director of the Minorities Affairs Commission, himself a Han. While history records that the Chinese are masters of doing just that by combining Confucianism, Buddhism and Taoism, today no one who does more than attend a religious marriage or funeral will make it past petty officialdom.

One minority, the Kazhaks, who numbered only about 2,000, have been moved from the province altogether, revealed director Du. Refugees from the Kazhak uprising (a "contradiction," he called it) in Xinjiang inthe 1940s, they fled to western Qinghai.

By the 1980s they had become so inbred that when party leader Hu Yaobag visited Qinghai in 1983, he approved a request that they be allowed to return to Xinjiang. Peking's motives may not have been disinterested, since, sharing its Kazhak population with the Soviet Union, it likes to keep them happy.

Outside Xining stands one of the greatest shrines of Tibetan Buddhism, the Kumbum or (in Chinese) Ta'ersi monastery. Here Tibetan pilgrims, clad in long sheepskin coats, their women with hair in tiny plaits, fling themselves on the ground in worship.

"Some do it 100,000 times," said a Han official. "That takes a healthy man six month."

In enlightened post-Cultural Revolution days Buddhism, like Islam, is tolerated. Monks at Kumbum number around 500, though novices are few. The handful of boys at the lama school amounts to only 13, so the future of the monastery must be in doubt.

In the bustling market below the temple's gilded roofs, grubby pilgrims buy blankets and jewellery. Yaks wander past the Tibetan tents 100 yards away, while the snowcapped mountains glisten in the winter sun. It is a far cry from the sedate streets of the provincial capital.

Though Xining has its Moslem quarter, it is 80 per cent Han, just one more of the thousands of mostly post-1949 towns built in China with dull square buildings and endless avenues.

Only the eastern corner of Qinghai has been settled by Han for any length of time. They now account for most of the urban and farming population, while the Moslem Hui are merchants and small traders. On the high grasslands 800,000 Tibetans wander with their yaks.

Qinghai is second only to Tibet for backwardness and poverty. The north-east corner shares the eroded yellow loess country of adjoining Gansu and the rest is crossed by wild mountain ranges. The huge Qaidam depression in the north-west, though stocked with minerals, is part-marsh, part-salt lake and part desert. Even the plateau land is too high for rich pastureland.

Development has come slowly. In the past 35 years the railway has made its way to Xining and Golmud, and roads connect it to surrounding provinces (foreigners are now allowed to take the bus from Xining to Lhasa, but you must be tough to do it). A larger airport will be finished by 1989.

Industry, such as it is, has been set up mainly in Xining and Golmud. Chemicals, blankets, rugs and leather are made from local raw materials. A new 10,000-tonne aluminium plant processes metal from Shanxi.

There is the range of factories which at one time every province tried to have—steel, motor vehicles, machine tools. Many of the parts and raw materials have to be brought in from other regions, so plans now focus on developing local strengths. These are the hydro-power potential, oil and chemicals, livestock and their products.

Next year the first stage of the Yellow River hydro scheme will be finished. Plans are forming to exploit the reportedly 200bn-tonne oil deposits at Qaidam, and the Qinghai Government wants to build a pipeline to Golmud where a 1m-tonne refinery may be constructed. Xining is building a magnesium processing plant and plans to expand the salt and potassium industries.

Developing the grasslands is, if anything, more difficult since it involves co-operation from the Tibetan herdsmen. "We'll offer them subsidies to settle down and send their children to school," said vice-governor Bian Yaowu.

Given the pressing need to improve the livestock industry, this may be one case where the Han provincial government will use its undoubted muscle.

Colina MacDougall

Gansu

Outpost denied investment

"WE CALL this China's third world," said a young Chinese in Lanzhou, Gansu's provincial capital. Eight million people out of the province's 20m are, by official admission, "quite poor." A thousand miles from Peking, Deng Xiaoping's reform only started in this mainly desert region about three years ago.

China last year told the western provinces that they could no longer expect much investment from Peking. The central government plans to put its money where the returns will be greatest in the east. It is hard to believe that this decision did not cause resentment.

On top of that, like the rest China Lanzhou is afflicted with the problems caused by the national spurt of growth last year. Small tractor production, for instance, is frozen because of huge unsold stocks. A TV plant is in dire straits because the military (who on Deng's instructions have gone nationwide into civilian business) bought a colour TV line from Japan and scooped their market.

Gansu stretches more than 1,000 miles from east to west. Much is desert or arid loess, the yellow dust blown over millenia from central Asia. Until the railway came in the 1950s, its oases afforded shelter to caravans travelling the "silk route" from China to the west. It is a land of energy and mineral potential but strictly limited agriculture and harsh living conditions.

The one large town, Lanzhou, stretches more than 30 miles along the Yellow River. This turbulent watercourse roars past the city with a huge load of silt from the surrounding hills. The city's pollution from industry is famous in China.

Always an outpost of the Chinese empire, Gansu was the channel through which Buddhism came to China. Spectacular shrines mark the silk route, from the painted caves at Dunhuang in the east to the literally cliff-hanging temples at Maiji in the west.

Geographically part of central Asia, under the Han dynasty (206 BC to 220 AD) Gansu was attached to China. The "flying horse" of Gansu, a masterpiece of Chinese art displayed in London in the 1970s and now in the cavernous Lanzhou museum, dates from this period. The Great Wall ends at a fort in Jiayuguan in the west of the province.

The restless history of this frontier land culminated in a 19th century revolt by the Moslem Hui people. This was suppressed with great savagery. Troubled again in the 1930s and 1940s, it was only brought under firm Chinese control when the Communists took over in 1949.

Some 1m Hui still live in Gansu, as merchants in Lanzhou or small farmers. They are unmistakeably different from the Han, or ethnic, Chinese, with their beards and white skullcaps. Several huge mosques have been built in Lanzhou recently to replace those sacked in the Cultural Revolution. With a substantial Moslem population throughout its north-west, Peking keeps a weather-eye open for Islamic fundamentalism.

Lanzhou is a garrison town with officers lounging conspicuously in the lobbies of its hotels. The headquarters of one of the country's key military regions, it is conveniently placed for China's uranium enrichment plant some miles from the city. In the desert north of Jiayuguan lies the country's rocket test site, recently all-military but now potentially civilian as China gears up to offer foreigners satellite launch facilities.

After nearly 40 years of impoverished socialism, Deng's reforms have begun to raise the standard of living. Eager hawkers from all over China have descended on Lanzhou's free markets, bringing the products of the richer east to sell in this deprived and distant city.


Shandeng beansprout seller in Langzhou market.

Amid the long lines of stalls and the hustle of passing feet, young Fan Xuetong from Huaibei in Anhui province spreads his red velvet TV covers embroidered with the magic but mis-spelled word Hitaohi. Buying in Hefei, Anhui's capital, and selling in Lanzhou, he makes around 300 yuan a month, more than his parents and brothers together on their family farm.

Cheerful but grubby girls from Shandong sell the beansprouts they raise in a rented room in Lanzhou.

The reform has also helped agriculture. At a reported 4.6bn yuan for 1985, the value of agricultural output has gone up by about 50 per cent since 1980. Though only 8 per cent of the province's land is cultivatable, grain and fruit grow in the south-east and in the oases.

With a claimed output of only 11.5bn yuan in 1985, Gansu hardly rates as an industrialised province. Yet it has advantages denied the much more developed eastern parts of China. Hydropower from the Yellow River and around 1.5m tons of oil yearly from fields at Yumen and Qinyang make it an energy exporter.

Industrialisation began in the 1950s, when Lanzhou got 20 out of the 150-odd projects supplied by the Soviet Union. These included the huge Lanzhou Petrochemicals Plant (employing nearly 40,000 workers) and the Lanzhou Petroleum Equipment Plant, the biggest in Asia. The LPEP supplies 80 per cent of China's drilling equipment including offshore.

Besides processing its own raw materials—nickel from Jinchang (one of the world's richest deposits), copper from Baiyin and lead from Changba county, the province's power surplus allows it to process other region's aluminium. Gansu accounts for a third of China's output, an example of the extraordinary distances raw materials travel in this huge country.

Foreign trade is in its infancy. In 1985, exports were around \$70m and imports \$30m, and are expected to run at about the same level this year.

Woollens, animal products, minerals and machinery leave the country in return for items like wool textile finishing equipment.

Joint ventures and other forms of co-operation with foreigners were invited last year at a symposium held to promote about 100 projects. "Not much has happened since," said Zhang Da, deputy general secretary of the provincial government.

It will not be easy for Gansu, with or without foreign technology, to bring its remote territories and assorted peoples into the 20th century.

Colina MacDougall

Inner Mongolia

Economic change eases grievances

A Mongol peasant and her grandchildren

INNER MONGOLIA is one of five autonomous regions of China, a status that confers considerable cultural freedom for the Mongol minority, a measure of economic subsidy, but no political independence.

The liberal economic regime introduced in 1978 appears to have restored relations between Chinese and Mongols in this long border province beyond the Great Wall.

Well before they completed their revolution in 1949, the Communists had won considerable support among leaders of the ethnic minority. Their sympathetic treatment of the Mongols under Ulanfu—now, at 86, vice-president of China—was interrupted first by the so-called Great Leap Forward and again, more seriously, during the Cultural Revolution of 1966.

During the latter upheaval, when armed clashes were reported, Ulanfu was accused of reactionary nationalism and imprisoned. Other prominent Mongol Communists were tortured and killed while herdsmen in the vast grasslands were forced into communes under Chinese control and sent off for political "re-education."

Today, Ulanfu's son Buhe is chairman (governor) of the region, and two of his five deputies are of Mongol birth. Positive discrimination means that Mongols are heavily over-represented at senior official level; they are also allowed to have up to three children compared with the one—or, exceptionally, two—permitted to Han (Chinese), and the penalties for exceeding the quota are said to be lighter. Television, radio, newspapers and official documents are bilingual and there are schools where Mongolian is the first language.

It could be said that Peking can now afford to be so tolerant. Between the start of the Cultural Revolution and 1978 some 6m Chinese are said to have been settled in the region. The Han now account for 17m of the 20m population, the Mongols about 2.7m and various other nationalities—Hui moslems, Evenks, Uighurs, Manchus and Tibetans among them—make up the rest.

If economic reform has helped redress old grievances, it has yet to make a big impact on industrial development.

Inner Mongolia is far from being the poorest of the 29 provinces. The people of the mountains and grasslands, it is true, mediaeval world of mud-brick and plaster sheds, with pigs and chickens scratching round the door and the pony-cart for transport. But Huhehot, the capital, is a smoke-polluted modern Chinese city of half a million inhabitants.

High-rise buildings are going up on every side and a 16-storey luxury hotel was opened this year. Jeans and boots and leather jackets are in fashion, and some of the girls are slapping on as much facepaint as a Japanese geisha.

The local economy grew 8 per cent this year compared with 10 per cent last year according to the planning commission, and is due to continue at 7.2 per cent average over the next five years. The herdsmen's average income is put at 650 yuan, compared with 365 yuan (net of living costs) for farmers and 720 yuan for city workers. Unemployment (or "permanently waiting for work," as officials are obliged to call it) has fallen to between 3 and 4 per cent as more people' go into business on their own account, whether as high-earning shopkeepers or barely-subsisting street traders.

Inner Mongolia produces meat, wool, leather and dairy products on the northern grasslands, crops in the south, forestry in the east and iron, steel and chemicals in the west. The main activity is sheep and cattle-rearing and the region wants to modernise its wool and leather industries. Drought in the grasslands means there is a need for more irrigation, fertilisation and animal feed.

The state has promised funds of 1bn yuan for development this year and next and 8bn yuan over the whole of the five-year plan to 1990, compared with 6bn yuan in the past five years. Some of this will be spent on developing the reported 8bn tonnes of proven coal reserves, said to be second largest in China after Xinjiang in the far west.

Officials say Inner Mongolia could overtake Shanxi province in terms of coal output: the present rate is 32m tonnes a year, less than capacity because of an inadequate rail network. Four of the five open-cast coalmines mentioned in the state plan are for Inner Mongolia, including Junggar, south-west of Huhehot, for which a Japanese loan of $800m is earmarked.

Three railway lines are planned: one from the closed city of Jining, on the Moscow-Peking transcontinental line, to Tongliao: one from Baotou, site of one of China's biggest steelworks, to Shanxi province: and one from the new Junggar mine to Datong.

The regional government has been authorized to borrow, if it can, $300m from abroad for approved projects. These include railway development, power station upgrading, irrigation from the Yellow River, alkali extraction in the west, chemical plants and non-ferrous metalworking. Regional planners are waiting for World Bank approval for the rail and irrigation schemes, and are negotiating for concessionary finance from Australia and Denmark, among other countries, for industrial projects.

Negotiations with companies in the US,Hong Kong and West Germany about coal development have been going on for several years. The government wants the companies to invest and even manage the enterprises, repaying them in coal. No contracts have been signed yet because, said Zhao En, a senior government official foreign affairs, finance is being offered at interest rates higher than the government will pay.

Foreign involvement in the economy is limited, but there is said to be $100m of foriegn exchange to be spent a year on machinery from abroad. Compensation trade (where the imported equipment is paid for ingoods produced seems to be preferred to equity joint ventures because of the bureaucratic obstacles in the way of the latter.

Mitsui of Japan has been involved in production of high-quality cashmere, and another Japanese company in the manufacture of sugar beet feed for dairy cows. Negotiations are in progress with Italian, West German and Swiss companies for knitwear, ceramics, glassware and flour milling. A handful of equity joint ventures, co-operative and leasing arrangements bring the total foreign exchange committed to the region to only $47m.

In terms of foreign trade, Inner Mongolia ranks only 23rd in China. But exports have expanded from $70m two years ago to around $170m this year, according to the regional bureau. Imports were worth some $50m this year, compared with $30m last, because the region was able to retain a large slice of its hard currency earnings. One of the perks of an autonomous region is that it may keep half of its hard currency earnings, while provinces can keep only a quarter.

Any hope of increasing commercial contacts with Outer Mongolia depend on how far Sino-Soviet relations will ease. Even then, there is not much that its backward neighbour can offer China. There seems little confidence in the regional government that the USSR will withdraw its troops from the border as Mr Mikhail Gorbachev, the Soviet leader, has said.

An official said China has few troops at the border, wants normal relations with Outer Mongolia, and is concentrating on economic, not military development. The bomb-shelter tunnels built underneath Huhehot in 1969 when war with the Soviet Union seemed imminent are said to be gradually falling in.

Christian Tyler

A beggar on the road between Jining and Huhehot (top) and a Mongol and her child shopping in Erlian, both in Inner Mongolia

Guangxi

Trying to make up for lost time

SINCE the Sung dynasty 700 years ago Guangxi has been regarded as a poor but stunningly beautiful backwater fit only for peasants, poets, soldiers and recalcitrant officials. Some might be tempted to say that little has changed in the past 1,000 years.

In south west China on the border with Vietnam, Guangxi is a mountainous region of bizarre limestone peaks and massive river systems which have long been eulogisd, though only by poets and artists.

Only 10 per cent of the land is suitable for agriculture yet 34m of the region's total population of 39m live in the countryside; mainly scratching a meagre living from rice, sugar and fruit growing.

No one is starving but agricultural incomes are far below the national average and a large number of Guangxi's country folk, many of them from the province's 12 minority tribes, have incomes equivalent to less than 400 yuan a year.

Authorities in the Guangxi-Zhuang Autonomous Region, as the province is officially called, agreed earlier this year to exempt poor households, many of them in the north and west, from paying agricultural taxes.

The circular issued in Nanning, the capital, defined poor households as those whose average annual grain ration was less than 200 kg (440 lb) a year and whose annual income was below 120 yuan.

This year farmers have also endured appalling weather. Two typhoons struck the region, causing widespread flooding and damage. Crops of rice, sweetcorn and potatoes fell to 11m tonnes from 13.6m tonnes three years ago.

According to an official in the provincial planning office, unemployment, or underemployment, in rural areas is widespread, and a large majority of farmers' children cannot find jobs after leaving school.

Development of the region has been hampered by China's border war with Vietnam. Peking's decision to teach Hanoi a lesson in 1979 took an estimated 200,000 troops to the province, but the Chinese soldier is hardly a big spender.

From both Peking's and Guangxi's points of view the results were that Chinese troops suffered about 20,000 casualties (around 10,000 of whom are believed to have died) in the two-months war, while Guangxi was forced to provide homes, jobs, subsidies and sanctuary for about 130,000 of the estimated 283,000 overseas Chinese who fled across the border from North Vietnam.

Besides this financial burden and the disruption caused to people living along the Vietnamese border, the fighting hardly made Guangxi the Peking authorities' favourite place for investment. In consequence the region was left behind just as Deng Xiaoping's economic reforms were beginning to take effect.

Sporadic fighting, shelling and incursions continue along the frontier, but officials claim that the disruptions affect just 1m people living in a strip along the border. Chinese troops in Guangxi are now fewer than 100,000 and the province is trying to make up for lost time.

Although backward the region has a superabundance of largely untapped resources that are just beginning to make the economic planners in Peking sit up and take notice. Guangxi is rich in a whole array of minerals—200m tonnes of bauxite, 140m tonnes of manganese ore, and large reserves of titanium, tungsten and zinc.

It also has great possibilities as an export outlet for neighbouring landlocked provinces, substantial resources of marine products in the Gulf of Behai and a wealth of hydroelectric power potential in its might river systems.

There is also the capacity to expand further one of China's biggest tourist industries based on the resort of Gweilin, already one of China's top four destinations for foreign visitors.

So far tourism has been the region's main success story. This year Gweilin expects about 333,000 foreign visitors and nearly 4m Chinese tourists. In 1978 it hosted just 58,000. The city's deputy mayor is so taken by the transformation of this once sleepy town on the Li River that he is forecasting 700,000 foreign visitors by 1990 and wants to build an international airport.

Next to tourism, agriculture, fruit and food processing, Guangxi's main development priorities are power and communications. Officials calculate that the region's hydroelectric power potential is at least 18,000 MW, and work has already begun on three power stations on the Hongshui River, the first part of a 10-plant plan to generate, at a cost of 20bn Yuan, up to 11m kWh of electricity.

It is among the largest hydro development projects under way in China.

Guangxi consumes just 1.5m kWh of electricity a year, so the aim is to export most of it to neighbouring and power-hungry Guandong. Work is now under way on a $300m power tranmission line to link the two province's electricity networks. The massive increase in output could also provide a useful base for the region's own light industrial development.

Officials in Nanning are now considering the possibility of an aluminium smelter based on local bauxite and Hongshui power. The scheme could provide Peking with much-needed orders for its massive transmission line construction programme, but finding the money to get it going, and a means of transporting it to where it is needed, will not be easy.

Despite the five major rivers, which until as recently as the 1920s provided one of the main routes for the opium trade, communications in Guangxi have been a serious block to economic development. A new railway between the capital of nearby Yunan province and Nanning is now at the planning stage, while a link to the new port of Fangcheng on the Gulf of Behai is nearing completion.

Almost finished, too, is a doubling of Behai's port capacity to about 1.5m tonnes. It is hoped that together these two ports will provide the main outlet for exports to Hong Kong and the rest of the world from landlocked Yunan, Gweizhou and Sichuan provinces as well as from Guangxi itself.

The idea makes good sense in the long term, but an overloaded transport network to the railhead at Nanning means that there is a long way to go before the region's outlets on the Gulf of Behai can provide a real challenge to Canton's port of Huangpu.

Shortage of finance rather than ambition is likely to prove the main drag on development. Given current low world prices for minerals, attracting foreign investment will be tough, while for other projects such as textiles, food processing and light industry the region's publicists will have to work hard to persuade investors to go there rather than to better-known places like Shanghai and Guangdong.

For the present the investment planners in Nanning are wisely concentrating on trying to attract overseas Chinese investors.

Whether the region's prodigal sons will consider returning with their wallets open remains to be seen, however.

Richard Cowper

Shanxi

Adrift on a sea of coal

THE NORTHERN province of Shanxi is a dramatic representation of China's changing fortunes over the centuries. Once one of the cradles of Chinese ancient culture and prosperity. Shanxi now has only spectacular temples and priceless relics to remind residents that times have not always been such an uphill economic struggle.

Today Shanxi pins its hopes on its vast sea of coal—one quarter of all China's reserves—beneath its largely rocky and unyielding surface. But unless it can takle its formidable infrastructure problems and get coal away quicky and efficiently to energy-starved provinces in the south and to the Eastern ports for export, the province's ambitions of renewed prosperity for its 26m inhabitants could remain frustrated.

"We have 220bn tonnes of coal, 3bn tonnes of iron ore deposits and 500m tonnes of aluminium yet we rank only around the middle of all Chinese provinces in terms of economic wealth," says Mr Wong Sen Hao, the *governor*.

"We have made great progress but our targets now for the new five-year plan are to make a dramatic change in our capabilities."

He is one of a new breed of governor. A native of Shanghai, like the *mayor*, he is a graduate of Peking's mining institute. He worked in the Shanxi mines for 27 years before moving to the central ministry in Peking in 1982.

Within a year he was identified as someone with the knowledge of mining which might enable a province like Shanxi to make some use of its natural assets. Although still only in his early 50s he was sent back as governor as part of the central philosophy of pushing younger men into leadership.

"Transportation is our hopelessly weak link. It looks as if we have a good arterial railway network but it can carry only 150m tonnes a year and we need a minimum 200m tonnes. The priority in the Five-Year plan here is to electrify and double-track existing railways, build at least five new tracks and simultaneously increase coal production," he says.

Meanwhile, 40m tonnes of coal sit stockpiled in Shanxi every year, production rises only very slowly from 210m tonnes last year to 220m this and perhaps around 230m next year. Desperately needed foreign currency is not earned because not enough coal reaches the ports. Energy starved provinces like Hunan also suffer power cuts and have to import coal from Australia because road and rail links are too poor to enable enough Shanxi coal to get much further than neighbouring provinces.

These *infrastructure* problems are so great that the province has had to rethink its ambitious plans for opening up more coal seams. The World Bank, for example, has agreed to a request by Shanxi that the previously agreed loan facility for a new mine at Changzhuang should be diverted to modernising and upgrading existing mines rather than exploiting new deposits which will only add to the stockpile and transport difficulties.

In spite of these difficulties surrounding its key asset, Shanxi is moving slowly forward on other fronts. The dismal smog hanging persistently over the capital of Taiyuan, obscuring the magnificent mountains and making coughing and spitting endemic, are a testimony to the rapid industrial expansion.

"*We know London managed* to free itself of smog and we are studying West German technology for controlling industrial pollution," says the mayor, Mr Yang Chungchun. But whether precious foreign currency is likely to be allocated to such *sophisticated* equipment seems highly doubtful.

Foreign investment is expanding and negotiations are under way with foreign governments for loans for $300m of development projects in chemicals and metallurgy. Negotiations are also taking place with the World Bank for a $35m coal processing plant and a $30m cement manufacturing plant. Talks are advanced with the West German steel giant, Krupp, for a DM1bn joint venture for a special steels plant with 450,000 tonnes of annual capacity.

China's largest chemical fertiliser project, the Shanxi Chemical fertiliser factory, has been established with West German and Japanese technology and although foreign currency is scarce, the province is anxious to push forward with more projects involving advanced foreign heavy manufacturing technology.

But the province faces two other major hurdles to progress — reform of the agricultural sector and an improved education system. About 80 per cent of the population works in the largely unmodernised agricultural sector producing just 16 per cent of this year's province income. The 5m in the industrial sector therefore generate 84 per cent of income.

For all the progress China is making in some fields, hand tilling of fields and the rickety old wooden cart tugged along by an ox or donkey remain the rule in *Shanxi as much as anywhere* else. Less than a third of the cultivable land is irrigated and many small farmers are scratching a precarious living

As modernisation slowly encroaches the hand-tilled fields, surplus mainly poorly-educated labour, moves into the small rural industries which should form the base for both de-agriculturisation and the switch from heavy to more light industry.

The Wan Kit Electronic company was established in 1984 in partnership with overseas Chinese in Hong Kong, who provided $150,000 to buy the most advanced watch-making technology available in the US. In the first year output was 420,000 watches, all sold in China as the quality was not up *to export standard. In* 1985 3.03m were made and half sold abroad. This year 3.2m had been made by November of which 80 per cent were sold abroad.

The capital start-up costs have been paid off, foreign exchange earnings this year should *top $100,000* net and the 177 workers can add bonuses of up to 250 yuan a month to their monthly income of 170 yuan—itself double the national average wage.

The the living standards of the Shanxi are improving rapidly as economic reforms stimulate the economy and people spend their surplus cash in the free markets along the pavements of even the smallest villages. The province's average agricultural income has risen by about 18 per cent a year during the 1980s and now stands at 357 yuan per year; urban incomes have grown by 8 per cent a year and now average 560 yuan.

Inflation—always a highly dubious statistic in China—is officially about 6 per cent a *year, so real incomes in the province* are rising. It shows in the shops and markets and in figures such as the 37 per cent of rural households who built themselves homes during the last five years.

But Shanxi is being held back by lack of infrastructure and a shortage of investment capital.

Robin Pauley

One of the bustling free-markets in Xiamen

Xiamen

Shop-window for the Taiwanese

THE GLOOMY BAR in the Jinbao Hotel in Xiamen, on the coast of Fujian province, was almost deserted. A young Chinese came in quietly, exchanged a few words with the barman and left.

"Do you know who he was?" asked an excited Chinese fellow-guest. "He's from Taiwan."

Under China's new open policy there is a large indirect trade with Taiwan via Hongkong and even some disguised Taiwan investment in the mainland. Visitors are still rare, however.

With the Guomindang-held island less than 100 miles away and the offshore islands of Quemoy and Matzu just over the water, Taiwan holds a special fascination for Xiamen. Its closeness emphasises the fact that many of Taiwan's original settlers were from Fujian province.

"Xiamen Special Economic Zone (SEZ) has to be a success," said a Western businessman. "It's China's shop-window for the Taiwanese as Shenzhen is for Hongkong. Now that Hongkong's future is settled the focus is on Taiwan."

The Xiamen SEZ, situated on an island with the town of Xiamen *on its southern tip, and a* stretch of coast opposite, is in difficulties. Like the rest of China, it has been hit by Peking's foreign exchange shortage and the resulting lack of foreign interest in investing. It also has other problems, such as misguided planning and errors of judgment in the choice of foreign trading partners.

Only 25 joint-venture contracts had been signed up to last June, compared with an unspecified but much larger number last year. The total to the same date from 1979 came to 314, worth $870m, with 141 now up and running.

The Huli industrial development zone, purpose-built one-storey factories for foreign partners, is nowhere near full, though some new enterprises are appearing on other sites in Xiamen island.

Although they include large US partners like Kodak, Wang and the tobacco company R. J. Reynolds, 60 per cent of the total are from Hongkong. With the rest mostly from Singapore, Malaysia and the Philippines, the emphasis is on the Overseas Chinese, mainly those of Fujian origin.

Xiamen, once better known under its local dialect name of Amoy, initially failed to attract industries likely to be foreign-exchange earners. This year, like many cities in China, it has *not been able to find the foreign* exchange for the factories which need components or raw materials from overseas.

Although the Deputy Mayor claimed that only 10 per cent of projects were in difficulties, foreign observers believe that the proportion was much higher.

"We've had to provide $63m in foreign exchange to the joint ventures, and the electronics industry has eaten up most of it," said Xiamen construction officials Qi Fan and Zhou Ku. This was a reference to the Xiamen Overseas Chinese Electronics Corporation, which had imported Japanese television and cassette player producton lines.

Xoceco, jointly owned by Xiamen and the troubled Hongkong company Conic still needs to import from Japan 70 per cent and 30 per cent of its television and cassette parts respectively. While a new model is being designed to use components made in China, and may be in production next year, this year the 500,000 TV set capacity plant will produce only about one-third of that. Of these only 40,000-50,000 will be for export.

In 1984, before the Xiamen plant was built, the Conic chairman vanished from sight in one of Hongkong's more spectacular scandals, leaving the company with enormous debts. Though then *taken over by the* Hongkong left-wing company China Resources, it took time to sort out Xiamen's position.

Xiamen was also unlucky with China's first joint venture bank, Xiamen International Bank. This was a project between the SEZ and the Indonesian Chinese Bank, Panin. Last year's scandal at Panin also meant embarrassment, problems and delay, and the project was resumed only after an injection of Middle East money into the bank.

These apparent errors of judgment point to the inexperience of the mainland Chinese who relied on personal and family contacts

One hopeful project is China Ceramics, a venture between Xiamen and the UK subsidiary of the US company Interkiln. This factory, planned to start *limited production in January*, will eventually have an output of 11m cups, plates, bowls and teapots for export to the US and 285,000 pieces of sanitary ware for South East Asia.

"Our problems are resolvable," said Mr F. Henshall, the *managing director on a visit to* the Xiamen plant. "Our raw materials are local, and we've installed a West German coal gasification plant, as China's fuel is of low quality.

"Unexpectedly, last year we had to ship in steel and cement, but we extended and *increased* our original £18m loan." This came from Wardley, the Hongkong and Shanghai Bank's financing arm.

Xiamen has advantages which appeal to some investors. Its harbour is one of China's best deep-water ports with a container terminal where trade increased substantially last year.

It has a new airport, new direct-dial telephone links with Hongkong and Japan, new hotels and a relatively educated workforce. It is also an agreeable if shabby city with beaches and water sports potential.

New regulations promulgated by the Xiamen authorities in October insist on quick approval for investment schemes and provide bond facilities for factories importing parts for assembly and re-export. This may be extended to *full free* port status.

On the debit side, transport inland is bad, with only one railway from its fertile triangle to the rest of China across inhospitable mountains. Historically a light industry centre, Xiamen has none of the heavy industry of Shanghai or Tianjin.

"But we are happy enough with our present deal to be planning another," said Mr Henshall. "We're discussing one with Shanghai and we may build *a tile plant here as a second* stage."

Colina MacDougall

A woman building worker in Shanghai, where the go-ahead has been given for major reconstruction.

Shanghai

First steps to urban renaissance

TURN ON the local radio in Shanghai and you hear American rock music. Step into a back-street restaurant and have Shanghai crabs for less than $5. Or push your way into the Number One Department Store and buy a lumpy but presentable pin-striped suit for $16.

Also on display in Shanghai's premier department store are Shanghai microwave ovens, Sony videocassette recorders, Chinese-made electric guitars and snooker sets.

Once the commercial leader of Asia, Shanghai is starting to make a comeback.

Shanghai's recovery will take many years to complete—most of the city's infrastructure and capital plant still dates from before the war—but in the past two years important progress has been made. The framework is now in place for an urban renaissance.

"I cannot say that in the near future we will be the biggest or the best in the Pacific region, but we will try to be one of the best," says Zian Hue-Zhong, vice-mayor of Shanghai.

Elegantly dressed and smoking imported cigarettes, Zian typifies the city's ambitions. Indeed, City Hall, the former Hong Kong Shanghai Bank building, gives off the same aura. Every bit of the opulence of the colonial bank has been preserved, from the polished marble floors to the delicately-painted vaulted ceilings.

City Hall stands in marked contrast to Shanghai of today, where the 12m residents have an average 54 sq ft of living space, where indoor plumbing is virtually unknown and most of the city's piped water is unsafe to drink without boiling. Recently, however, a number of important changes have taken place in Shanghai, each one adding to the city's recovery plans.

The most important is the boost in the city's budget, thanks to a more relaxed view from Peking. Traditionally, Shanghai has surrendered all but about 13 per cent of its revenues to the central government. Thanks to the earnings of its well-developed, if ageing, industrial base, Shanghai has been supporting the renovation for much of the rest of the country.

Last year, however, Peking agreed that Shanghai could retain 23 per cent of its revenues for its own projects. That provided a boost of roughly 70 per cent to the municipal coffers. In future years, according to city officials, the retained portion will increase further.

Spending on electricity, transport, telecommunications and infrastructure in 1985 soared to 1.9bn yuan, a 95 per cent increase over 1984. Renovations to factories and plant jumped 57.8 per cent to 3.56bn yuan. Because of the changed view from Peking, this level of funding is expected to be maintained this year despite recent declines in Shanghai's exports and a small drop in its overall revenue growth.

At the same time, Peking has given the go-ahead to an ambitious programme for rebuilding the city's infrastructure. After years of planning, studies and deliberations, Shanghai has decided to commission five major projects over the next five years. The city plans to raise capital at home and in foreign markets and involve foreign technology and management in all the projects.

They are:

- An eight mile underground system, expected to be completed by 1995. Shanghai is in talks with contractors in Britain, France and Japan about the project. Current estimates say the system will cost $162m a mile to build. City officials hope to help finance it by offering foreign companies development rights for commercial centres at each underground stop.
- A badly-needed extension to the Shanghai airport, to be built in co-operation with a Dutch contractor. Expected completion date is the end of 1988.
- A new bridge across the Huangpu River, in the planning stages, estimated to cost about $100m.
- A water purification and sewerage system, expected to start late next year.
- A new telecommunications system, already partially underway with the assistance of Bell of the US.

The foreign businessman hoping to make a quick link with one of the projects is likely to be disappointed. Exact specifications and costs have yet to be decided; not all can be done at once and priorities have not been decided because funding has not been arranged.

Matt Ward, economic consul for the US in Shanghai, says: "They are intelligent plans. This city was built 50 years ago for 4m people. Now, they have analysed the infrastructure and have come with sensible plans for modernisation.

"After spending 20 years in developing countries in Asia, I think what that city has done since 1980 is remarkable."

Foreign diplomats believe that Shanghai's emergence on the foreign capital markets could be significant over the next few years. A new 300,000 ton ethylene plant, for example, will be looking to borrow a sizeable portion of its 2.4bn yuan project cost from overseas.

At the same time, the city is attempting to provide incentives to foreign investors. Only weeks after Peking announced its 16 rules for joint ventures, Shanghai announced a programme of 22 new rules.

One of these already operating is an open foreign exchange market where yuan can be exchanged for foreign currency certificates. Others, such as an office for simplifying import procedures, has been approved but does not yet exist for lack of office space in the city.

Like every big developing city, an element of chaos is quickly detectable in Shanghai. The city's keen interest in boosting tourism and foreign exchange earnings, for example, has resulted in a overheated hotel construction programme which could bring a harmful glut of hotel rooms in a few years.

None the less, the city feels as if it is on a track, Mr Ward says. "Shanghai is an easier city than Tehran, Bangkok or Taipei. When the bicycles turn into motorbikes and motorbikes turn into cars, then the city may have big problems."

Those might be the kind of problems Shanghai would like to have—and certainly, it is already preparing to deal with them.

Carla Rapoport

Labouring in a market garden near Shanghai.

Fujian

Export boom for investment leader

PARADOXICALLY, Fujian is one of China's most foreign-oriented provinces, yet some 75 per cent of it is cut off from the sea by inaccessible mountains.

Its busy ports of Fuzhou and Xiamen (once called Amoy) traded abroad for hundreds of years, but the interior was completely untouched by their prosperous commercial life. Yet over the past century poverty drove many mountain people to flee to South East Asia, where their descendants now make up about a quarter of the world's Overseas Chinese community.

This overseas population and tradition of commerce gave Fujian a head start when Deng Xiaoping initiated the "open door" policy in 1979. Along with Guangdong, Fujian was given special facilities from Peking to attract foreign investment.

Xiamen was named a Special Economic Zone and Fujian was the first province to raise a loan abroad, through a Y5bn bond issue in Tokyo in 1983.

Since then the provincial capital, Fuzhou, and the fertile Xiamen-Zhangzhou-Quanzhou triangle in the south were also given special status as investment havens, though with this year's financial problems Peking has discouraged further infrastructure there.

But Fujian remains, with its $848m worth of foreign money promised and $346m already used, one of China's leaders in the investment field.

About 70 per cent of this money comes from Chinese overseas. "But we must not focus just on them," says Vice-Governor Chen Binfan. "We want co-operation with big companies in other countries."

Leading projects established so far include the joint venture Fujian Hitachi, a large colour television factory in Fuzhou, and the Sensitive Materials Plant in Xiamen, a technical transfer agreement with Kodak.

Taiwanese investors are also "active, but prudent," says Vice-Governor Chen. To avoid publicity business is handled through Singapore or Hong Kong.

With decentralisation Fujian's trade has boomed. Exports, in 1978 worth only $190m, stood last year at $490m. Hong Kong and Macao are its main markets, while its chief source of imports is Japan.

"We have two problems with Japan," said Mr Chen, echoing other Chinese officials. "One is our trade deficit, because they buy very little from us. The other is that they are very conservative and narrow-minded in transferring technology to us."

Japan has been a useful source of finance, however. The Y5bn bond issue of 1983 was followed by another of Y10bn in 1985. They were used to finance the extension of the airport and the Kodak-supplied plant at Xiamen.

Launched by Nomura, which approached Fujian with the idea, neither required a Bank of China guarantee. The province has followed them this year with a $50m Asian dollar bond issue in Singapore.

Fujian's development record since 1979 is not bad. The airport at Fuzhou has been extended, and the port at Mawei improved. At Dongdu on Xiamen island four 10,000-ton berths have been built.

Fujian borrowed money from the First Bank of Chicago in 1979 to establish an ocean-going cargo fleet which is now turning in an annual income of $6m. New programme-controlled telephone exchanges in Fuzhou and Xiamen make it possible to direct-dial abroad.

Forthcoming projects include a 320 MW hydro-electric power station at Shaxigou financed by a Kuwaiti loan of $20m. The first turbines will be installed next year.

Port development is planned at Meizhou Bay, where deep water permits its expansion as an entrepôt. Lead and steel-making plants, and an oil refinery are also on the schedule.

Most of Fujian's investment in the near future will go into the coastal strip. Behind it lie the high mountains where about two-thirds of the population still live. This area, in some parts precipitous and wooded, in others disastrously eroded, affords a poor living to the millions who live there.

"The red granite in north western Fujian is the worst," says Yu Guanglu, deputy director of Fujian's Foreign Affairs Office. "Erosion keeps the annual income down to about 200 yuan per person." With the city income about 700 yuan a head this is startingly low.

Of Fujian's arable land—about a quarter of the total—only 10 per cent is flat. The rest is only suitable for hillside crops such as tea and oilseeds.

With growing disparities in incomes it remains to be seen how long the provincial government can maintain its present investment policy of concentrating mainly on the coast.

Colina MacDougall

Tea pavilion at the seaside opposite Xiamen island.

Daqing

Pioneers' hardship eases

WHEN Mao Zedong whipped China into a frenzy during the Cultural Revolution, he fixed on Daqing, the country's largest oilfield, as a symbol of achievement for the propaganda drive. The masses were told again and again that "industry should learn from Daqing."

The old slogan raises a smile in the remote and bleak city in China's north-west. Yet the old hands who arrived in 1959 after surveys showed that there was an oilfield worth exploiting clearly believe that the hardships they endured have set an example for the country.

These try not to look too far ahead, as oil output has reached its peak and the field will be struggling to attain the goal of just over 50m tons annually for the next 10 years. The 2,348 mantis-like pumps that have appeared since 1983 even in the grounds of housing complexes and hotels are reminders that the oil is not gushing as it once did.

Ma Jirei arrived as a 17-year-old at what was a desolate grassland in late 1959 after having been comandeered from an oilfield in Xinjiang province for what was called the "oil battle."

"When we came it was very difficult. We had no place to house the people. We had to haul the huge drilling rig by ourselves because we had no machines to carry it," he says.

Ma is now vice-chairman of the local trade union, and has a not-so-humble pride in the fact that the field is still producing about half the nation's total oil. "I will live here no matter what. I constructed it with my own hands, so I love Daqing. Now it is a civilised city."

Fashioning a future is partly the responsibility of Zhang Qingcheng, director of the municipality's planning commission. He expects the population of 830,000 to rise to 940,000 by 1990 and 1.1m by the end of the century. In the meantime, the city will attempt to change in character from "a single-industry to multi-purpose metropolis," as he puts it.

At present, oil and petrochemical make up 89 per cent of the municipality's gross production, while light industry comprises only 3 per cent. Mr Zhang says, "Every day I think about the oil disappearing. Peking and other cities are an adult in light industry but Daqing is only a child."

Daqing is planning beer, furniture, livestock feed, bread and textile factories. Last year, a blanket factory went into operation, and negotiations have begun on the construction of factories to manufacture parts for the increasing number of pumps needed to squeeze oil from around the city.

Seven fields make up what is collectively known as the Daqing field. For the past decade Chinese leaders have talked of a "second Daqing" in the region, but the grand find has not happened. Poor results from offshore exploration in the past three years and the oil price slump that has curbed foreign enthusiasm for onshore exploration have put extra pressure on existing fields.

Hence the Chinese are working on ways to increase the recovery rate of Daqing's known reserves of 4.3bn tons. The present rate is about 32 per cent and the aim is to lift that to 50 per cent. Up to the end of last year, 792m tons had been exploited since the first oil was won in 1960.

Increasing amounts of water are being pumped into the field to keep the pressure high — for every seven barrels of oil, six cubic metres of water must be injected. And the Government has made clear that it is willing to spend foreign exchange on new techniques.

Zhang Qingcheng, who came to the region in 1960, says water is pumped into the middle of fields in Daqing, whereas foreign companies prefer to inject it on the fringe, "We get better results from our method."

The Daqing Economic Development Corporation diversified the city's interests unexpectedly by buying a 70-room hotel in Frankfurt for DM 9.2m last year. The renovated hotel had an opening in April and is due to be formally christened soon. The Corporation reckons that income earned after the first two months of operation was about DM 100,000, and says the property is intended to be Daqing's window on the world and the world's window on Daqing.

Li Huichang, the corporation's vice-director, also arrived here in 1960 and was responsible for purchasing provisions for the workers. He is now a thrusting businessman. "If you have a good project we will think about it," he said, rolling up his sleeves to emphasise that he is a man of action.

Mr Li admits that the corporation was fortunate to have secured the hotel deal last year because the Ministry of Foreign Economic Relations and Trade in Peking has approached such projects conservatively this year. He said the investment has proven to be wise because the corporation is making a profit on exchange rates.

The corporation has opened a branch office in the Shenzhen Special Economic Zone in the south, and has invested in a restaurant in the northern port of Dalian. It is also negotiating the building of a plastic bag factory with a Hong Kong company.

Daqing has a legendary harshness. It has produced characters such as "Iron Man" Wang, said to have worked 24-hour shifts and pictured in a local museum pulling a cable with his bare hands while his comrades are gloved. But the harshness has eased. The windswept streets are lined with five and six-storey apartment blocks, and local officials say that seven of the 20 seismic survey teams have air-conditioned coaches complete with bath and colour television.

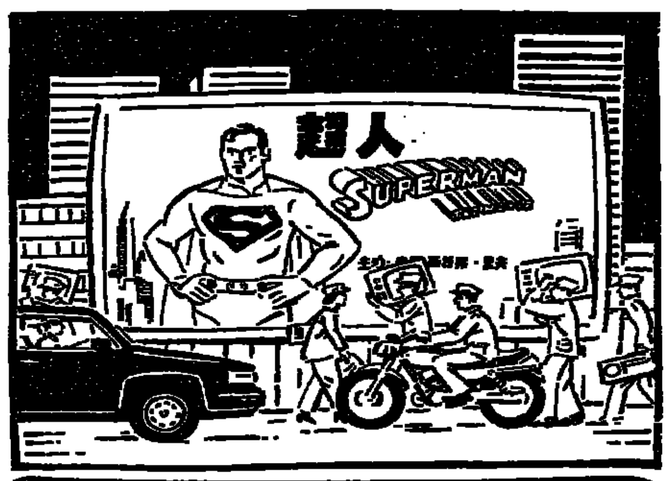
Deng Xiaoping visited the area in 1979 and was appalled by the poor standard of housing, partly a legacy of the spartan romanticism of the Cultural Revolution, and mostly a lack of money. Municipal officials say the "Daqing spirit" is as strong as ever, and stories of workers performing selfless acts are still the stuff of the local press.

A monument of drilling pipes arranged in a triangular pattern is being erected in the centre of the city in appreciation of the efforts of the hundreds of engineers and other workers who created the original boom. Despite having to use primitive drilling equipment. China had counted on Soviet help in developing the field, but the Sino-Soviet split ended this hope.

Ma Jirei remembers that a chronic shortage of vegetables forced workers to eat pig food. Like many of the first arrivals who have stayed on, he cannot comprehend a Daqing in decline.

Robert Thomson

Commissioning of a plant built by the UK's Davy McKee in Daqing



Cultural and Social Reforms

China's literature and film, frozen for years under rigid socialism, has begun to thaw into life. But for hundreds of millions who have practically no schooling, this is mostly meaningless. Until Peking spends more money on education, neither culture nor the technical skills needed for modernisation will be able to take off.

Education

Neglect proves drawback

CHINA'S over-stretched, undernourished education system remains one of its most serious problems. Of the country's 136m primary school students, only 6 per cent graduate from secondary schools and only 640,000 students reached university this year. Some 200m Chinese are unable to read and write.

"The failing of the administrations of the past three decades was the neglect of the importance of education. This is proving to be a serious drawback to the modernisation of China," says Prof. Zhao Fusan, Vice-President of the Chinese Academy of Social Sciences, the Peking research centre and think-tank.

Education was held in open contempt during the Cultural Revolution: teachers were ridiculed, universities and secondary schools were closed, and many rural primary schools forced to operate in run-down temples or shrines.

In Fujian Province in south-east China, these schools were called *wupo* ("five broken")—broken building, broken windows, broken doors, broken desks and broken stools.

Today, China's leadership has recognised the crisis in education and taken some steps towards solving it. Last year the Ministry of Education was absorbed into the new State Education Commission, equal in status to the powerful State Economic and State Planning Commissions. The Government also announced that nine years of education would be compulsory by the end of the decade.

The problem, however, remains one of funding. The central government recently announced plans to boost spending by more than 72 per cent over the next five years, to \$31.5bn. But this is far from what is needed. Japan, with a tenth of the population, spends almost that much on education annually.

"We have a large and qualified faculty but we are short of classrooms and funds," says Prof Zhang Xiaowen, Vice President of the prestigious Tsinghua University in Peking.

"For research projects, the professors have time, but no funds. About 80 per cent of the proposed projects have to be rejected." Teinghua University is one of the fortunate ones. Many operate with unqualified staff and delapidated buildings.

As for secondary and primary schools, as many as a third of the teachers do not hold teaching degrees. In rural areas, the illiteracy problem is holding up modernisation; fishermen who can buy new boats find they cannot read their navigational charts.

According to Prof Zhai, the debate about increasing funding for education is going on at the highest level in Peking. "It seems ambitious that nine years of compulsory education could be achieved in less than 20 years. It would need much longer."

Indeed, at the spring session of the National People's Congress, education officials said that the ambitious Three Gorges power station project should be delayed or cancelled, with the funds diverted to education. That debate has delayed the energy project for at least a year. The choice between energy and education will not be an easy one.

But even if more money was made available for education, the problems would not disappear, because fewer educated young Chinese want to be teachers.

The average salary for a teacher in the Shanghai West Middle School is about 100 yuan a month. A teacher would earn twice that as a labourer on a hotel construction site, and more by setting up a small business.

On the plus side, however, China's reforms are seeping into the educational system. At the Shanghai West Middle School teachers are allowed to run small businesses on the school premises and keep the profits. They have opened a photocopying service and a small production line making ship measuring instruments.

According to Mr Jin Yaxiang, headmaster of the school, the new businesses have boosted salaries by about 30 per cent.

"The respect for teachers is much better today. But the job is harder. Students expect much more from us," says Mr Jin.

This is not surprising, as university entrance places are decided solely by examination results held nationally each July. The students are tested on seven subjects during the three-day exams.

Some, however, can now take part of the exams prior to the national exams. Even so, Chinese, mathematics and English are tested solely at the annual July examinations.

In spite of this intense pressure, students who do make it into higher education are finding a freer atmosphere for dissent and debate. This September, for example, China published its first white paper on science and technology policies.

It says "Respect for academic freedom is an expression of respect for people's democratic rights and for human intellectual creativity. It is not up to administrators to conclude what is right or wrong in academic fields. Right and wrong can be determined only through free discussion and the test of practice.

"It is absolutely forbidden to criticise different opinions as being not in line with the party."

Like many other reforms, it may be some years before the full effect of these statements is felt. But for all its problems, the modernisation of China's educational system appears to be under way.

Carla Rapoport

China's education system faces serious problems

Eloquent testimony to caprice

Wang Meng, Minister for Culture, is a former writer

Profile

Wang Meng

WITH HIS vaguely Oxford-donnish appearance, Wang Meng, Minister for Culture, writer and technocrat, is eloquent testimony to the caprice of Chinese politics. Three decades ago, he was denounced when Mao Zedong said: "Let 100 flowers bloom", now, he is leading a revived "100 flowers movement".

Much about Wang Meng appeals. He is a survivor and has an eclectic taste that takes in the likes of John Updike, Truman Capote, and John Cheever. Though he holds ministerial power, he humbly wants other writers "to think of me as a fellow writer", and will return to writing when his days in government are done.

Wang Meng is a symbol as much as a minister. Whatever one hears about him walking the Communist Party line drawn by Deng Xiaoping, Wang is encouraging debate of sensitive issues such as literary freedom, and actively encouraging writers to speak their minds.

"The younger writers tend to be a little bit rash, while the older writers are still a little bit conservative", he says. "Scholars don't have to be worried about what they think and what they express".

The minister is a touch optimistic. It is still difficult for Chinese writers to have boundless confidence having witnessed the startling shifts of party policy in the past decade, and the more subtle tide changes of recent years. Freedom is at the flood now, but artists sense that the party could soon think it has all gone too far.

In Dengist times, the signs of clampdown are a controversial play that has closed early, an art exhibition that suddenly finds a pre-booked gallery has no space, or a book that has a prematurely short print run. Diplomats are still watching the arts closely as they tend to be one of the first hit by a conservative chill.

Wang Meng experienced such a chill in 1957 after writing the short-story A New Young Man Arrives at the Organisation Department. This told of Lin Chen, a young and idealistic Party worker who arrived at the district party committee "filled with scared visions of a party worker's life", but found stultifying bureaucracy and "fat-faced cadres" in a gunny sack factory.

Wang was labelled a "rightist" rather than a writer, and was not rehabilitated until 1979. Now he is at the top of the cultural bureaucracy.

"I have adopted a more realistic attitude to bureaucracy", he says. "It is not a good idea to overcome bureaucracy by writing novels. It is a better idea to get at it through my work and other social activities".

The 52-year-old was invited on to the party Central Committee in 1982 after having joined the party as a 14-year-old. He was appointed minister in June this year after party leaders apparently took many months to convince him that he was the right man for the job.

He is executive chairman of the Chinese Writers' Association, which claims the membership of almost all major writers. The Chinese news agency Xinhua evaluated his worth as "a prolific writer who suffered frustrations' by noting after his appointment as minister that he has written more than 2.5m published words".

By definition, Wang Meng is part of the party structure, and so he is fortunate that the party has taken a more liberal stance on the arts. It realised that the output of writers and other artists since Communist rule begin in 1949 has been generally appalling because of party pressure.

He maintains that Chinese artists have never had more freedom: "For instance the psychologist Freud has been published quite a lot in China. Now there is more and more discussion of humanism, equality, freedom and universal love", he says.

Asked about the case of an artistic director of a theatre company who complained that having to defend her last work from ongoing criticism was a great distraction from creating new works, Wang Meng said the phenomenon is "not bad". His meaning was that criticism is a healthy thing, but the criticism the director faces was more of the political than the creative kind.

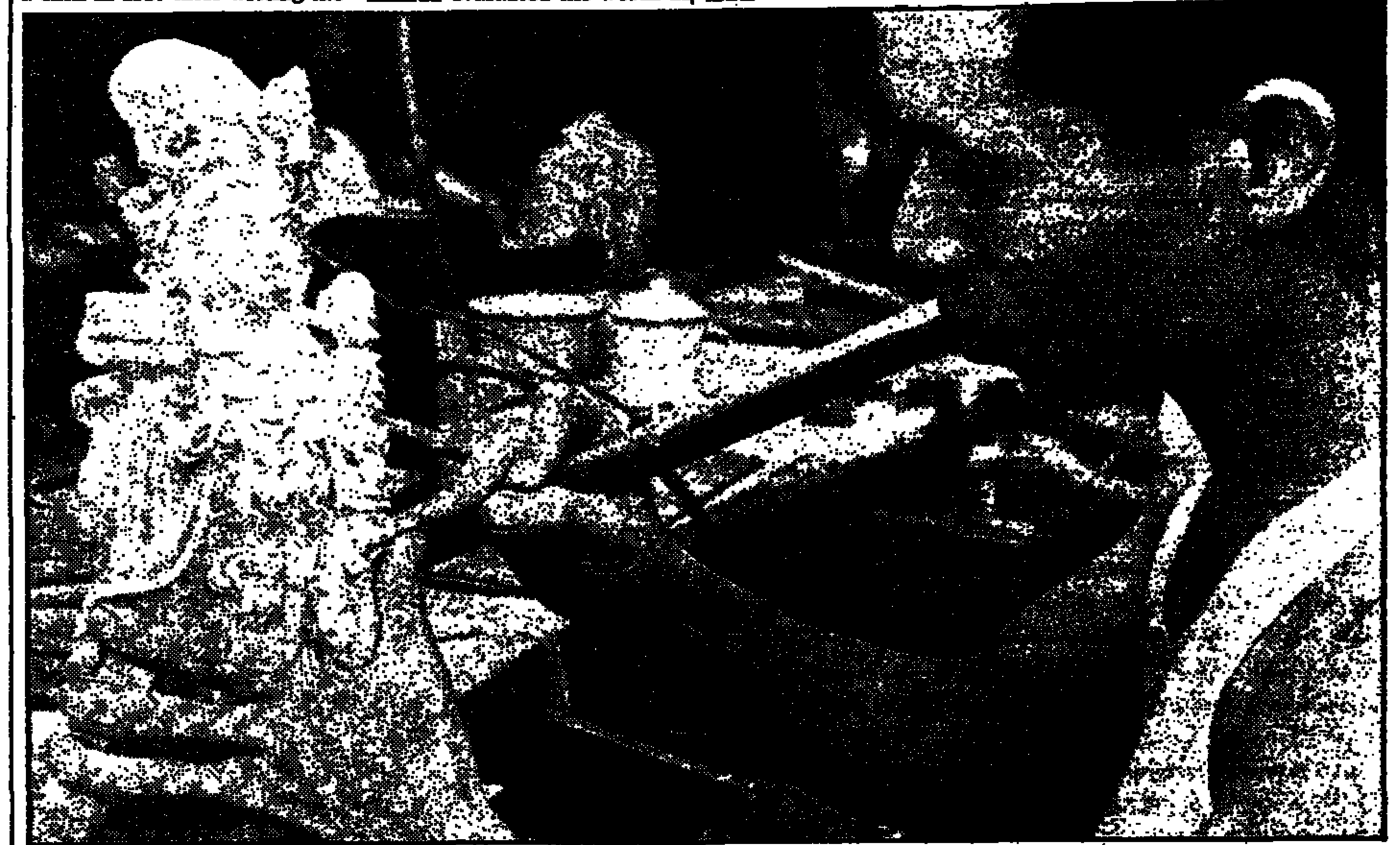
In some ways Wang is like his short stories. They are technically strong, often funny and charming, but have somewhat predictable conclusions about the Communist Party's virtue. China cannot claim to be virile in political satire, yet the minister believes that chairman Mao has been properly satirised, which is patently not true. The late chairman remains a very sacred cow.

While Wang Meng is at the helm of culture, writers can at least be assured that they have a minister who knows something about the craft, and who knows what it is like to have trust betrayed and what that does to an artist's confidence. He is appropriately cautious in his criticism and very public in his enthusiasm for what can be achieved.

His time as a minister will provide him insights and experiences that should be the stuff of many short stories if he returns to the life of a full-time writer, though he is not so certain.

"I am not sure whether I will write about this period", he says.

Robert Thomson



Ivory carving factory in Guangzhou

Literary life

Ambition fuelled for first Nobel prize

AS PART of the drive to make Chinese literature an exportable commodity, the Chinese Writer's Association, a semi-official body whose members include virtually every major published author, organised the country's first international conference on contemporary literature.

The event attracted more than 50 Sinologists from 22 countries last month, as foreign scholars and translators met 37 Chinese writers and critics at the Jinshan petro-chemical complex's guest house on the outskirts of Shanghai.

Many Western Sinologists were intrigued by the fact that

The high point was the appearance of Goran Malmqvist, Star of the Swedish Academy

Wang Meng, the culture minister, and his fellow organisers both tolerated and encouraged discussion of questions that are still rarely aired openly in the Chinese press such as the problems of creative freedom, self-censorship and the pressures on Chinese writers to churn out new and increasingly faddish works.

If nothing else, the conference proved to many that Wang Meng, writer turned technocrat, is not only one of the most important and mercurial figures in contemporary Chinese intellectual life, but also that perhaps he more than anyone else embodies the qualities of the "new man" of Deng Xiaoping's China.

There were examples of the academic love for esotericism, with structuralist analyses of short stories, and linguistic studies of peasant prose. But for many, the high-point was the appearance of Goran Malmqvist, star of the Swedish academy and the man most likely to get China its first Nobel Prize for literature.

Malmqvist fuelled the ambitions of recognition-hungry Chinese writers by claiming that contemporary Chinese writing compares favourably with the best literature in the rest of the world. This is a view that is certainly not shared by Western scholars less directly committed to the Nobel cause.

For all of his artful dodging when asked which Chinese writers he thought would be contenders for the Nobel laurels, the professor unwittingly revealed that the small group of Chinese writers he is translating into Swedish could be front runners. These include Bei Dao, the middle-aged poet and ex-Red Guard, and Shen Congwen, the Septuagenarian novelist. One of China's greatest living writers, he has declined to produce any works since the Communists came to power in 1949.

Although the official Chinese reaction to all this was fawning—bagging the prize has become a matter of national pride—other Western Sinologists were not as impressed. Speaking after the Swede, the British scholar, W. J. F. Jenner told the Chinese writers and critics they should be concerned only in writing for Chinese readers, and take no notice of foreign scholars and the opin-

It is only a matter of time before the Chinese are awarded the prize

ion of "a handful of North European cronies" whose taste in literature has generally proved to be faulty.

He did concede, however, that it was only a matter of time before the Chinese were awarded the prize, and that when this happens he would offer his congratulations, if for no other reason than a Chinese writer will make a great deal of money out of the deal.

Geremie Barme

Cinema

New wave leaps out of the red

WITH A cinema-going audience of over 200m, the Chinese film industry should not have to worry about box-office receipts.

But under the Government's economic reform policies the industry has had to start paying its own way after 25 years of being both red and in the red.

Something of a crisis occurred in mid-1985, when elderly cultural bureaucrats realised that although the industry was beginning to pay for itself ideological standards were being compromised and in some cases gleefully abandoned.

A rash of love stories, cheap thrillers and flash detective movies highlighted these concerns. Then, when a small group of young directors started to produce "new wave" films, including the internationally acclaimed "Yellow Earth" (directed by Chen Kaige), they called for emergency action.

Hoping to inject a little ideology in the works of the wayward film-makers, and to calm the conflict between the older film industry and the burgeoning television industry (which has two dozen stations and a nightly audience of over 200m) the Government forced an amalgamation of the two media giants last March, creating a new Ministry of Film, Broadcasting and Television.

For film-makers it seemed as though the mixture of commercial frippery and avant-garde experiment they had been enjoying was to give way once more to a diet of political pap. In fact, the shake-up of the industry has so far had only a marginal effect.

Propaganda-minded television bureaucrats have made little attempt to interfere in the labyrinthine complexities of film politics; and the fact that studios still have to pay their own way means that no one wants to push a political hard line and be held responsible for loss of real income.

So, 1986 has seen a startling and often heterodox development of cinematic themes and styles. Sex, the cinema of the absurd and epics Hollywood-style are now the order of the day.

Huang Jianzhong's "Women of Good Family" has been a path-breaker in sexual candour. It shows the child bride system in feudal China whereby young women were married to prepubescent boys. The film chronicles the sexual frustrations and final rebellion of one woman and has much sexual symbolism.

One of the most striking new films, "High School Girl Gone Lost," is the first to deal with the formerly forbidden zone of adolescent sexuality in a country were people are not supposed to have sex before marriage.

Along with an increasing official tolerance of sexual emotions and realities has come an acceptance of mental aberration, prompting a spate of "theatre of the absurd" films, including the young director Huang Jianxin's comedy "Black Cannon Incident."

The film tells of an engineer victimised as a spy by the prying party committee who base their suspicions on a cryptic telegram he sent to a friend asking him about a lost Chinese chess piece (a black cannon).

A spy satire on party rule, the film first won grudging party approval and was recently given a number of Government awards. Though a shade too experimental for Chinese audiences, "Black Cannon Incident" was recently approved for international release and will be sure to make a mark on the film festival circuit, if for no other reason than it suggests that both Kafka and Orwell might have felt at home in Deng's China.

An intriguing development in film over the past year has been the appearance of "Epics." Historical personalities such as the "Christian general" Feng Yuxiang and Sun Yat-Sen are the heroes of big-budget blockbusters. Even war films, made on small budgets are more concerned with comradely relations than battle scenes, for years now have had more than a touch of Hollywood extravagance about them.

A reason for this epic fad is that any number of film people believe fame and fortune will be theirs only when they can compete with Kurosawa. As for the popularity of these films, one has to look no further than the Dallas phenomenon to see that audiences, even those in Socialist China, are interested in lives, loves and adventures of the rich and famous, whether capitalist or revolutionary.

The past year has seen only one noteworthy example of a "reform movie"—Yang Yanjin's "1985-86 in Province T." It concerns a staunch and honest provincial official who falters when faced with the need to support political reform and abandon the feudal autocratic style of rule that has characterised officials in the past.

Though it tends to be slapdash, "Province T" promises to be one of the most popular films of the new year. It is so much in keeping with the Government's latest political initiatives that it is likely to bag a number of major film awards.

With an output of over 120 feature films a year, the Chinese industry can now afford to allow greater artistic and thematic freedom. But the bugbear at present is not so much politics as the need to produce commercially viable films.

The "new wave" directors are even now thinking about how to keep themselves and their studios on the road to prosperity while not compromising their art—a problem Western film-makers are much more familiar with and one that their Chinese counterparts finally have the dubious good fortune to face.

Geremie Barme

Chinese traditional painters at work.

Modern music is making an increasing impact in China.

New writing

Old theories come in for questioning

IN CANTON in the 1970s, people were so hungry for a change from their regular literary fare of stolid socialist realism that a copy of Dumas' The Count of Monte Cristo could be exchanged for a new bicycle. Only a decade or so later, readers can go into the city's state bookshops and purchase translations of Camus, Sartre and Freud and a wider range of domestic writing.

For the less academic reader there are *xiaobao* unoffical periodicals produced on shoestring budgets which frequently have more in common with western scandal sheets than with any of the more reserved offical journals.

Full of wonderfully lurid stories with titles like; How many Wives Did Chiang Kaishek Really Have? and The Three Female Corpses Found In President Reagan's Backyard, these periodicals have been gaining ground on their state-subsidized counterparts, taking a slice of the market share, not to mention consuming scarce newsprint.

Away from the spies and martial artists of popular literature, more serious fiction in China is moving into uncharted new territory as well. As the Cultural Revolution recedes, writers are taking literature closer to reality than at any point since 1949.

That is not an easy task in a society where the bureaucracy has been accustomed to making periodic swoops on the literary world. Writers are expected to be mindful of their serious moral and educational mission and have been held firmly to account in the past for straying from the prevailing political course.

Although Zhang Kangkang a popular female writer, says, "some works...are still liable to be criticized and censured", an increasingly experimental and vital literature is beginning to appear.

Gone are the happy endings and heroes of revolutionary fiction. The writing of the mid-1980s is about ordinary people – the survivors of labour reform camps, embittered and nostalgic Red Guards and disillusioned officials.

That such characters in fiction at all is no mean achievement. It is only a few years since the regime concentrated its energies on the goal which so preoccupied Mao – the remoulding of the human spirit.

The political and social consequences of that vast experiment are, superficially at least, well known. Economic development was stalled, institutions of education closed and the fragile gains of a long and grim war of liberation left to hang in the balance.

A substancial proportions of China's cultural heritage was destroyed forever. The chaos and unreason that stalked the country silenced writers and sent most into exile or worse. Many of China's major cultural figures – including Lao She, perhaps her greatest 20th century writer – were killed.

Since the official repudiation of the Cultural Revolution in 1978, the survivors have been finding their voices again, finding ways of describing that troubled and tragic era and of producing a literature equal to the experience.

Rumbling alongside the new writing has been a wide-ranging debate about humanism in literature. It is a topic that may sound dated by Western standards, but in China it represents the most sustained questioning of orthodox theories of class struggle and the function of literature since 1949. One of the most accomplished advocates of the restoration of humanism in fiction is Zhang Xianliang.

The world of labour camps and persecuted intellectuals is familiar territory for Zhang. He spent 20 years on a labour reform farm and his book "Mimosa" was the first popular work to share that experience with the public. The losers and drifters of Zhang's fiction do not exactly behave like paragons of political virtue and frequently elicit sharp criticism from cultural bureaucrats. Zhang's latest work, Half of Man is Woman, has drawn fire for its explicit sex, unacceptable to either Marxist or Confucian traditionalists. But Zhang is one of a number of popular writers whose recent work contains elements that would have been unthinkable even as recently as three or four years ago.

Established authors such as Zhang Jie, Han Shaogong and Shi Tiesheng are increasingly turning to exploring reality through satire, the absurd and the grotesque. And in perhaps the most interesting new work to appear in the 1980s, the younger new "Daoists" such as Ah Cheng, and film director Chen Kage draw upon the traditions of a much more ancient China to ask questions about the present.

It is too early, perhaps, to pinpoint the real successes and failures in the reformed literary landscape of Deng's "second revolution." What is clear though, is that this unprecedented experimentation is taking place with a minimum of interference. The truce between politics and culture has even seen the appointment of a number of younger and cosmopolitan officials.

This policy must make some of the more questioning of the nation's writers—frequenty the target of vendettas and fabricated scandals—sigh with relief. Wang Meng Minister of Culture, was himself in the vanguard of the literary radicals before being elevated to the corridors of power this year.

Exiled to the far western region of Xinjiang in the 1950s for writing a story which dared to gently criticise the work-style of Party officials, Wang spent 20 years away from his native Beijing before returning to lead the ranks of the writers who appeared in journals such as Canton's Innovative Flower City.

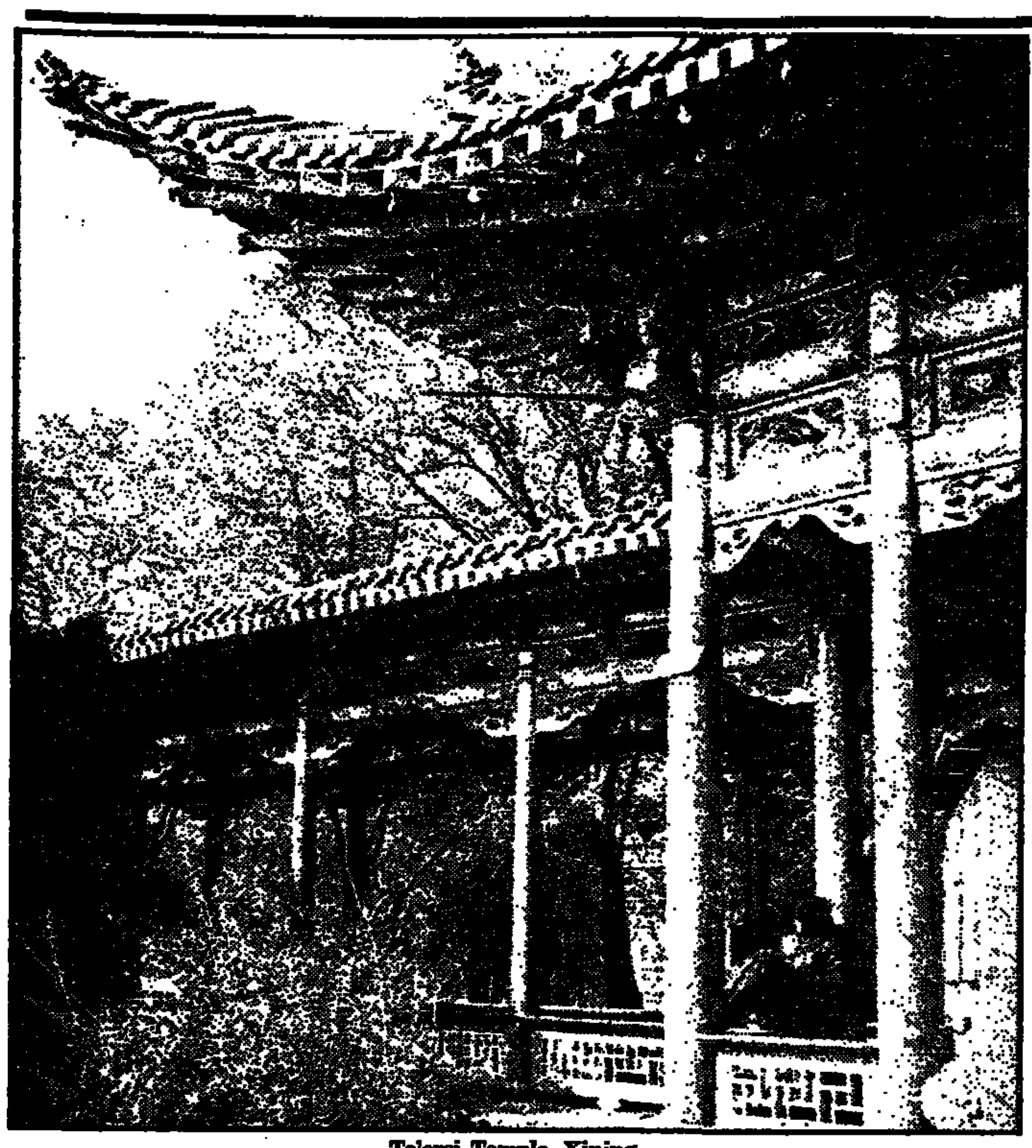
His appointment was followed this summer by that of actor-director Ying Ruocheng as a Vice-Minister. Both men are equipped to evolve cultural policies which could creat a more secure environment for the arts.

Although in his speeches, the minister invokes the old touchstone of social responsibility and warns against the "spiritual emptiness" of Western culture, he has committed himself to protecting creative freedom. Indications are that he intends to keep a low profile and try to reduce some of the divisions in the cultural word.

If he succeeds—and even his detractors concede that he is a master tactician in balancing innovation and orthodoxy as he is likely to preside over the most important phase of writing since the New Culture Movement of 60 years ago.

Carole Murray

Guanxi—the all-important connection



Ta'ersi Temple, Xining

CHINA RIGHTLY has a reputation as a difficult place to do business, though the Government has realised that this image has contributed to the slump in foreign investment this year and is doing its best to streamline an awesome and often combative bureaucracy.

Contacts

Connections or *guanxi* are all important, whether to arrange a suitable hotel room, to get a good interpreter or to meet the person who really makes contract decisions. Getting *good guanxi* is the result of ongoing contact with a potential Chinese partner, and of course, the more powerful the partner, the better the *guanxi*.

The trade representative office in one's home country embassy is the first place to turn if you are a new China hand. If the trade officials are doing their job, they will have a stock of people they have cultivated and whose assistance could come in handy.

The traditional means of turning embassy *guanxi* into your *guanxi* is by throwing a banquet, and entertaining your guests. The Chinese appreciate a good sense of humour and prefer that banquets are not the stilted occasions they so often are, so the more bonhomie the better.

Numerous China consultants have opened offices in Peking, as have many foreign banks. These are only too willing to help as their traditional banking business is severely limited in China.

The Ministry of Foreign Economic Relations and Trade, which has a consultancy arm called Consultech, is worth trying directly, as is the Bank of China, and the China International Trust and Investment Corporation.

Business Guide

The Chinese are tiring of high-profile delegations comprising captains of industry. On these occasions, the Chinese roll out senior officials who rarely get involved in negotiations, and the middle management contact essential in getting a project off the ground is too frequently overlooked. While a senior official may seem to agree with a foreign executive that a deal is a good idea, the mechanics of the project will be handled by underlings. They will not be under any obligation to abide by the sayings of the senior official, who may have been polite or badly informed.

In the end, the lower official must present a package for approval and it is his responsibility to make sure the best deal has been squeezed out of the foreign partner.

Inexperienced and inept officials in the provinces have had their fingers burned by shifty operators, particularly from Hong Kong, so the Government has moved to close the "stupidity gap" by recentralising final approval for many contracts. Chinese negotiators are increasingly skilled, well-informed and formidable.

A mistake made repeatedly by foreign companies is that the interpreter hired to negotiate the deal is changed during the protracted negotiation process. Negotiations will suffer a serious setback, as the new person must come to terms with the complexities of what has come before.

An underhand tactic used by some Chinese negotiators is to intimidate interpreters and consultants hired by foreign companies with comments like: "You are Chinese, why are you working against us?". It even happens to overseas Chinese, so check to see if such pressure is being applied and reassure your employee.

Foreign companies in China are often frustrated by the tunnel vision of some departments with whom they are not familiar. The Government is encouraging a horizontal view but the bureaucracy is still basically looking after its own backyard, and the best recourse is to ask the most powerful official you know to intercede.

A West European company involved in a Shanghai joint venture had several protracted problems solved after a chance banquet meeting between its manager and a vice-mayor, who ordered that phone calls be made to the belligerent bureaucrats in question.

Communications

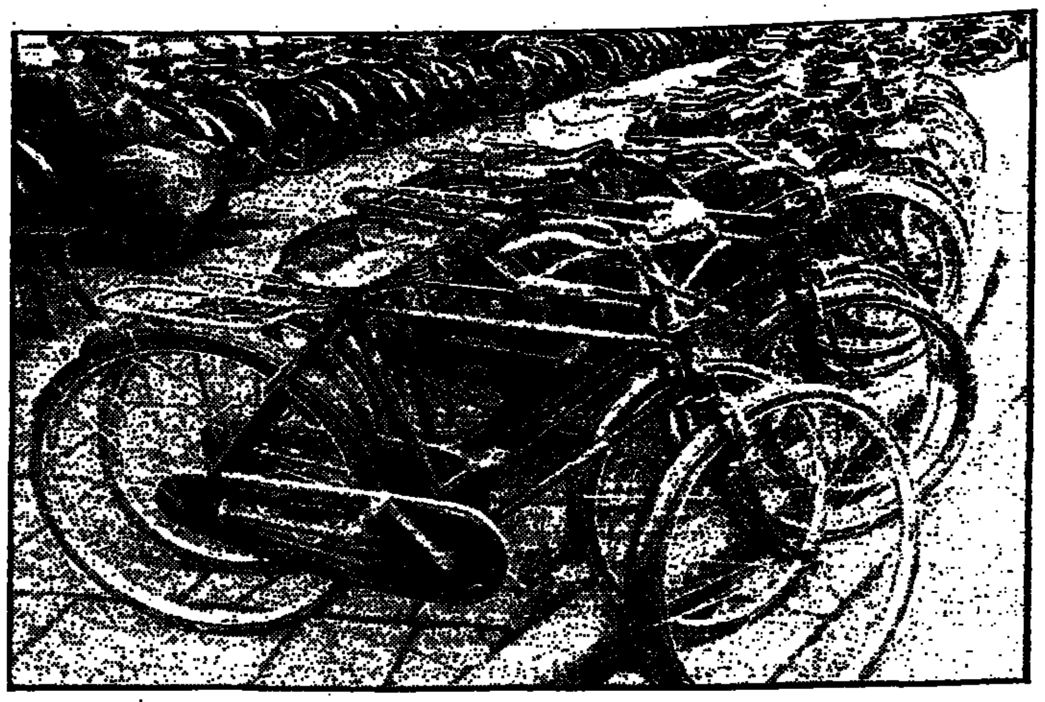
Communications are still a problem in most Chinese cities, though the Government has put great emphasis on developing telephone and telex networks. More hotels are installing telex, which is generally the quickest means of getting a message to the outside world. Operator-connected international calls are more efficient than a year ago, with a wait of between 15 minutes and several hours to be expected.

Several hotels in Peking and the far south have introduced international direct dialing. It is often difficult to get a line, but the quality is generally much better than the operator-connected lines.

Hotels

When in Peking the most comfortable places to stay are the Sheraton Great Wall (500-5566) at about $US120 a night, and the Jiangguo Hotel (500-2233) at about $100 a night. The Great Wall is on the east side, about 15 to 20 minutes drive from the centre of town, while the Jianguo is on the city's main street, Chang An, and is better positioned.

The most interesting place to stay is the Peking hotel (500-7766), not far from Tiananmen Square and the central shopping district. Chinese enterprises often have a quota of rooms, so a host may arrange a booking for you. A single room is about $65 while a suite ranges from $130 to US$220.



How to get about in Shanghai—take a bike

Travel

Travel between Chinese cities is difficult, with aircraft fully booked up to a week in advance, so ask your host organisation or potential partner or Peking representative to prebook. It is difficult to buy a ticket from Shanghai to Guangzhou in, say, Peking, and is best done immediately on arriving in Shanghai.

There is a little-known standby counter at Shanghi Airport to the right of the domestic check-in area, and at Peking Airport at the far left of the domestic check-in stations. It is difficult to find, so ask for advice at the terminal.

It is also worth going to the airport in most Chinese cities even if told there are no seats for several days. Seats are often held on flights, so a show of theatrics that conveys the urgency of a mission and unswerving persistence will sometimes be effective.

A car with driver can be hired for a day for about US$27 from the Shoudu Taxi Corporation (52-1044) or the Zhongbei Taxi Corporation (48-4441). The bigger the car the bigger the charge.

Interpreters

Interpreters can be hired in Peking from the Foreign Enterprise Staff Corporation (FESCO) on 500-1731 for about $30 a day.

Climate

The north is bitterly cold from late November to March (as low as minus 30 deg C in the far north), pleasant during a short autumn and spring, and warm to hot in summer (30 to 35 deg C). The south is warm to hot during summer and mild during winter.

Winter is a good time for doing business in the north. If nothing else, it is a show of keenness, and officials' schedules are not so crowded with appointments.

Robert Thomson

Breakdown of selected basic statistics

Heavy Industrial Output Growth

% change over same period in previous year

	1986 Jan-Sept	1985 Jan-Sept
Steel	11.7	7.0
Rolled steel	9.8	9.7
Coke	6.7	7.4
Pig iron	15.9	6.8
Cement	13.9	18.4
Plate glass	5.4	17.7
Machine tools	3.7	19.2
Power equip.	30.8	39.6
Electricity	9.1	8.7
Coal	1.2	11.5
Oil	3.4	10.0
Fertilisers	0.7	(6.1)
Motor vehicles	(15.8)	52.3
Small tractors	(11.2)	30.8

Consumer Products

% change over same period in previous year

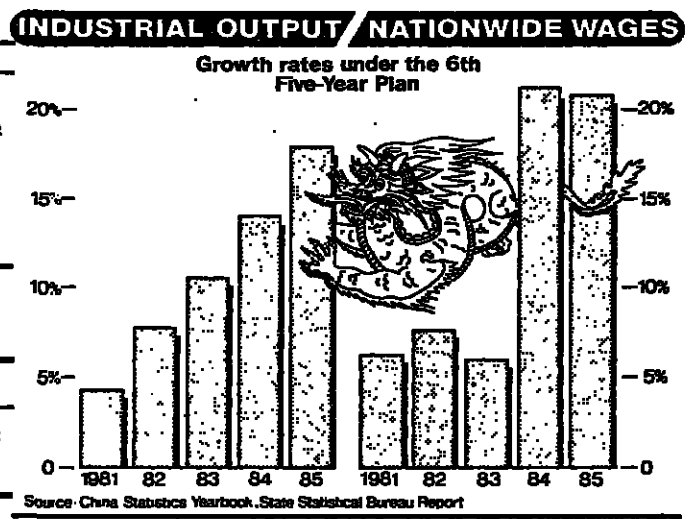
	1986 Jan-Sept	1985 Jan-Sept
Washing machines	0	64
Colour TV	(13.6)	140
Cameras	21.9	42.5
Bicycles	7.6	14.4
Cassettes recorders	26	94.9
Refrigerators	54.6	195.5
Watches	39.7	16.5
Electric fans	16.5	83.6

Construction Spending

% change over same period in previous year

	1986 Jan-Sept	1985 Jan-Sept
Total investment	9.5	38.6
Productive	15.2	25.2
Non-productive	2.1	61.2

Source: US Embassy



Source: China Statistics Yearbook, State Statistical Bureau Report